

**COMMONWEALTH OF MASSACHUSETTS  
BEFORE THE  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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Western Massachusetts Electric	)	D.T.E. 97- 120
Company	)	
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**WESTERN MASSACHUSETTS ELECTRIC COMPANY'S  
ELECTRIC RESTRUCTURING REVISED PLAN**

**I. INTRODUCTION**

Western Massachusetts Electric Company ("WMECO" or "Company") hereby files for approval with the Department of Telecommunications and Energy ("Department") its electric restructuring plan (the "Revised Plan"), which has been conformed to include the various updates submitted by the Company since its initial filing. The Revised Plan sets out the process by which WMECO has, beginning March 1, 1998, initiated rate reductions, customer choice and other electric restructuring measures for its customers and will implement other measures over the next several months.

WMECO's Revised Plan is intended to comply with the legislation enacted by the General Court and signed by the Acting Governor on November 25, 1997 (Chapter 164 of the Acts of 1997 [hereinafter referred to as the "Act"]) and the restructuring policies set forth by the Department in its previous orders in D.P.U. 95-30 and D.P.U. 96-100. It

is also similar to the restructuring plans filed by Massachusetts Electric Company and Nantucket Electric Company ("MECO"), Boston Edison Company ("BECO"), Eastern Edison Company ("EECO") and Cambridge Electric Light Company and Commonwealth Electric Company ("ComEnergy"). The MECO, BECO and EECO plans were submitted as settlements and, on December 23, 1997 the MECO and EECO plans were approved by the Department (see D.P.U./D.T.E. 96-25-B; D.P.U./D.T.E. 96-24).

The Department is faced with the daunting task of reviewing and approving a complex and interrelated series of actions for WMECO to meet various legislative implementation dates, which began on March 1, 1998. WMECO's Revised Plan is being presented in a way that hopefully schedules the filing and review of critical elements first and later elements afterward, with several issues being considered concurrently. The Revised Plan has been prepared with the primary goal of gaining approval initially of the steps necessary to implement the required rate reductions and customer choice by March 1, 1998, as mandated by the Act. These steps suggest Department action in four areas prior to that date:

Approval of rates and terms and conditions to be effective on March 1, 1998 necessary to implement rate reductions and customer choice as required under the Act which has been approved by the Department on February 20, 1998;

Verification of WMECO's interim transition costs, subject to future adjustment, so that they can be collected in rates effective March 1, 1998 which has been approved by the Department on February 20, 1998;

Approval of interim procedures and ratemaking approaches that are necessary in the period between March 1, 1998 (the date for rate reductions and customer choice) and the date when the Department must issue orders on other provisions of the Act;

Initiation of parallel Department review of various implementation steps that, as proposed in the Revised Plan, will occur after March 1, 1998, such as completion of the audit and approval of securitization, the Standard Offer power supply solicitation process, and the auction process for non-nuclear generation.

In order to meet the deadlines in the Act, WMECO suggests that a comprehensive schedule, as illustrated in Appendix A, be considered by the Department. Of course, the Company is fully willing to work with the Department as it develops its own schedule for reviewing and approving various elements of WMECO's Revised Plan.

The Revised Plan is described in detail in the separate chapters that follow, but, in summary, the eight basic elements of the Revised Plan are:

**1. A Ten Percent Rate Reduction for Retail Customers.**

On December 31, 1997 WMECO has filed illustrative rate schedules, supporting schedules and bill impact analyses that will provided a 10 percent rate reduction from the appropriate undiscounted class rates for those retail customers opting for standard transition service ("Standard Offer"). This rate reduction is was measured from the rates that were in effect as of August 1997, (excluding a temporary settlement credit of approximately 2.4 percent that expiresd on February 28, 1998). Thus, thisat filing

reflects~~ed~~ -a 10 percent reduction from the rates that would otherwise be in effect on March 1, 1998. On July 1, 1998 WMECO filed revised tariffs for effect on July 1 that provided for the 10 percent rate decrease from rates that included temporary credit for August 1997. Section II of the Revised Plan describes the development of new rates for each rate class and supports the revised tariffs which are provided as Exhibits 1 through 10.

While specifically not seeking a hardship exemption from the mandated rate reduction (as permitted by the Act), WMECO's financial viability over the remainder of 1998 and 1999 is dependent upon several critical measures to mitigate its costs during the period its rates will be reduced. First, an issue faced by WMECO alone among Massachusetts electric companies in implementing the rate reduction is how to modify its generation and cost sharing agreement that is currently in effect with other Northeast Utilities ("NU") system operating companies and that is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). The agreement, known as the Northeast Utilities Generation and Transmission Agreement ("NUG&T"), has provided for a pooling of system generating and transmission facilities to maximize the economic benefits of the entire NU system's generation mix for all customers of individual operating companies like WMECO and to mitigate all companies' generating costs.

The benefits of the NUG&T will be affected by the change in load that WMECO will experience as a result of retail competition and by divestiture of its generating plants, both of which will make that agreement no longer useful for its intended purposes. However, WMECO believes it has devised an equitable procedure with regard to

continuing the benefits of the NUG&T on a temporary basis until WMECO's non-nuclear generating plants are divested, which allow the 10 percent rate reduction and customer choice to become effective on March 1, 1998. At the time of divestiture of WMECO's non-nuclear generating plants (exclusive of Northfield Mountain Pumped Storage Facility ("Northfield") and related facilities) WMECO expects to withdraw from the NUG&T in accordance with approval by the FERC. ~~In the Plan, WMECO contemplates divestiture to occur as soon as June 30, 1999~~WMECO's approach for an interim continuation of the NUG&T and the reflection of its net benefits in the variable portion of the transition charge are addressed in Sections III, IV and V of the Revised Plan.

Second, a further important issue relating to the 10 percent rate reduction is securitization. While WMECO will deliver the rate reduction as required on March 1, 1998, the expeditious securitization of transition costs is critical to further rate reductions and to the ongoing financial stability of the Company. In Section V.B of the Revised Plan, WMECO discusses the considerations involved in securitization and provides a sample schedule that it would follow in order for the Company to securitize as large a portion of transition costs as soon as possible.

Third, WMECO's ability to reduce rates by an additional 2 percent effective July 1, 1998 was based upon an expectation of approval of deferred accounting of certain 1998 costs equivalent to the earnings impact of the additional rate reduction.

Fourth, WMECO's ability to modify its Standard Offer Service Solicitation by eliminating the price cap was based on an expectation for the approval of deferred

accounting for the difference between supply price and revenues received from retail customers.

## **2. Customer Choice of Energy Supplier for all Customers by March 1, 1998.**

Consistent with the Act, WMECO's Revised Plan provides that, beginning March 1, 1998, the Company's customers have the opportunity to purchase electricity from any alternative supplier, subject only to whatever licensing requirements the Department may impose. Customer choice requires several enabling steps, including the unbundling of tariffs, and entirely new systems to handle the new interfaces needed between the distribution company, alternative suppliers and customers. These include programs for billing options, energy usage determination and estimation, transfer of data, transfer of funds, release of customer information and change in customer energy service provider. Certain of these issues are addressed in the Company's proposed Terms and Conditions, as described in Section VI.A.1 of the Revised Plan. Further, the Company will work with utmost speed to accommodate the billing options set forth in the Act in the time period required in the Act. WMECO respectfully requests the Department to approve all needed tariffs and terms and conditions on a schedule that enables it to implement the customer notice, billing, and other implementation issues.

### **3. Standard Offer Will Be Offered to Those Customers Who Do Not Choose an Independent Energy Supplier.**

As required by the Act, WMECO will provide Standard Offer to those customers who choose not to select an alternate energy supplier and back-up service ("Default Service") to those customers who are not eligible to return to Standard Offer. The energy portion of WMECO's Standard Service price path is identical to those filed by each of the other Massachusetts electric companies. It begins in 1998 at 2.8 cents per kilowatt-hour and escalates at preset levels for the following six years. As further required by the Act, Standard Offer will be offered over a seven-year period, beginning March 1, 1998, and it will be obtained after WMECO's non-nuclear generating plants are divested as described later, and the NUG&T modifications are approved by FERC, through a competitive bid process, open to all bidders and administered by an independent third party retained by WMECO. WMECO has eliminated the supplier price cap contained in its original proposal (and contained in other electric company plans) in order to make this solicitation successful, on the condition that its deferral of the difference between cost of supply and sales at retail is approved. Until the NUG&T is modified and WMECO's non-nuclear plants are divested, such Standard Offer shall be supplied on an interim basis from NU system generation resources, pursuant to the NUG&T. WMECO asks that the Department review and approve this solicitation process and the interim supply arrangement. Standard Offer and Default Service are discussed in Section III of the Revised Plan.

### **4. Recovery of Transition Costs.**

Consistent with the Act and the restructuring plans filed by all other Massachusetts electric companies, the recovery of net, non-mitigable transition costs will be effected through a non-bypassable charge applied to all customers taking distribution service. The four categories of transition costs are: (1) that portion of the net book value of generating plants that is in excess of the market value (before divestiture, 100% of net book value is reflected in the transition charge); (2) that portion of the value of contractual commitments for purchased power in excess of the market value; (3) regulatory assets; and (4) nuclear plant shut-down and decommissioning expenses. WMECO includes in this filing detailed accounting information regarding its transition costs to facilitate the initiation of the comprehensive audit to be conducted by the Department on these costs. Consistent with plans submitted by other electric companies, WMECO proposes to collect initially, prior to divestiture and securitization, transition costs related to generating plant over a period consistent with the asset's ~~remaining~~ ~~current~~ lives, and regulatory assets over 12 years. After securitization, WMECO proposes to collect generating plant and regulatory assets over a period commensurate with the term of rate reduction bonds issued to securitize transition costs, and to collect purchased power commitments and nuclear plant shut-down and decommissioning expenses over a term consistent with the length of these obligations. WMECO has also proposed to initially limit securitization of nuclear investment to 90 percent of book value pending the Department's final review of its recoverable stranded costs to facilitate the earliest possible implementation of the bulk of securitization. Section IV of the Revised Plan provides detailed information on the calculations of transition costs.



## 5. Mitigation of Transition Costs.

The Act requires aggressive mitigation of transition costs. WMECO's Revised Plan accomplishes mitigation in several important ways.

First, consistent with the policy of the other Massachusetts electric companies that have filed restructuring plans with the Department, WMECO will divest its non-nuclear generation resources as expeditiously as possible to maximize sale proceeds. Divestiture will occur through a competitive bid process administered by an independent third party retained by WMECO. Affiliated companies of WMECO, as permitted under the Act, are allowed to participate as bidders for the plants in the auction. WMECO asks that the Department review and approve this procedure, as revised by WMECO auction **all non-nuclear generating facilities, excluding WMECO's 19 percent ownership share of the Northfield Mountain Pumped Storage Facility ("Northfield") and the related hydroelectric facilities**, when the winning bids are determined and submitted for review (as early as **January 1, June 1998**). **Northfield and related facilities (e.g., Cabot/Turners Falls) will be divested by WMECO in their entirety in conjunction with the sale of the 81 percent of Northfield owned by The Connecticut Light and Power Company ("CL&P") no later than January 1, 2000. During the interim period under this proposal, Northfield and related facilities would be treated as a purchased power contract for purposes of the transition charge.** The auction of generation resources through this competitive process will establish their market value and maximize cost mitigation.

Second, as described previously with regard to WMECO's ability to achieve the required rate reduction, interim continuation of the NUG&T and near-term securitization

are essential components of WMECO's Revised Plan to mitigate transition costs.

Third, although a relatively smaller percentage of WMECO's transition costs are attributable to contracts with independent power producers, the Company is attempting to reduce its obligations that represent transition costs for these contracts. Currently, WMECO has two contracts with independent power producers. WMECO will make appropriate reports as required under the Act regarding its efforts to mitigate such transition costs. Further, ~~if mitigation through buy-down or buy-out is not~~ achievable the Company will ~~consider also auctioning~~ include these contracts. ~~as part of the resources that it expects to auction under its plan to divest its non-nuclear generating plants~~ The remaining over-market portion of these contracts has been reflected in the transition charge.

Fourth, WMECO believes that an important means to mitigate its largest component of transition costs, nuclear investment, is to create a performance-based approach for sharing the economic benefits of their operation as a direct offset to WMECO's transition costs. WMECO's ownership interest in Millstone 2 and 3, ~~upon when they~~ return to service, is expected to generate significant economic benefits, even in a competitive power marketplace. WMECO proposes an interim sharing mechanism that will capture these benefits as a reduction to transition costs. ~~WMECO has also committed to divesting its Millstone 2 and 3 assets no later than December 31, 2003. It is expected that WMECO's ownership share in Millstone 2 and 3 will be sold at the same time as that of CL&P which is obligated to sell its nuclear assets by the aforementioned date.~~ For Millstone 1, WMECO has decided to retire that unit because it will not be

economic to operate in a competitive wholesale market and would not be expected to generate benefits for customers.

The details of the first four elements of WMECO's mitigation are discussed in Section V of the Revised Plan.

## **6. Universal Service.**

Under the previous regulatory framework, an electric company had the obligation to provide integrated electric service to all customers in its service territory. In the new regulatory framework, WMECO will retain the obligation to provide distribution and transmission service to all customers in its service territory. Further, it will be required to arrange for the provision of Standard Offer or Default Service for those customers who do not have an alternate supplier. In addition to the services provided to all customers, the Revised Plan allows existing low-income residential customers, as required by the Act, to have the right to return to Standard Offer at any time. Thus, all customers will be assured of universal service on a basis at least equivalent to that provided today. Section VI of the Revised Plan provides a description of WMECO's approach to provide universal service.

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~~WESTERN MASSACHUSETTS ELECTRIC COMPANY'S  
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~~I. INTRODUCTION~~

~~Western Massachusetts Electric Company ("WMECO" or "Company") hereby files for approval with the Department of Telecommunications and Energy ("Department") its electric restructuring plan (the "Plan"). This Plan sets out the process by which WMECO will, beginning March 1, 1998, initiate rate reductions, customer choice and other electric restructuring measures for its customers.~~

~~WMECO's Plan is intended to comply with the legislation enacted by the General Court and signed by the Acting Governor on November 25, 1997 (Chapter 164 of the Acts of 1997 [hereinafter referred to as the "Act"]) and the restructuring policies set forth by the Department in its previous orders in D.P.U. 95-30 and D.P.U. 96-100. It is also similar to the restructuring plans filed by Massachusetts Electric Company and Nantucket Electric Company ("MECO"), Boston Edison Company ("BECO"), Eastern Edison Company ("EECO") and Cambridge Electric Light Company and Commonwealth Electric Company ("ComEnergy"). The MECO, BECO and EECO plans were submitted as settlements and, on December 23, 1997 the MECO and EECO plans were approved by the Department (see D.P.U./D.T.E. 96-25-B; D.P.U./D.T.E. 96-24).~~

~~The Department is faced with the daunting task of reviewing and approving a complex and interrelated series of actions for WMECO to meet various legislative implementation dates, beginning on March 1, 1998. WMECO's Plan is being presented~~

~~in a way that hopefully schedules the filing and review of critical elements first and later elements after March 1<sup>st</sup>, with several issues being considered concurrently. The Plan has been prepared with the primary goal of gaining approval initially of the steps necessary to implement the required rate reductions and customer choice by March 1, 1998, as mandated by the Act. These steps suggest Department action in four areas prior to that date:~~

- ~~————— Approval of rates and terms and conditions to be effective on March 1, 1998 necessary to implement rate reductions and customer choice as required under the Act;~~
- ~~————— Verification of WMECO's interim transition costs, subject to future adjustment, so that they can be collected in rates effective March 1, 1998;~~
- ~~————— Approval of interim procedures and ratemaking approaches that are necessary in the period between March 1, 1998 (the date for rate reductions and customer choice) and the date when the Department must issue orders on other provisions of the Act;~~

~~—————Initiation of parallel Department review of various implementation steps that, as proposed in the Plan, will occur after March 1, 1998, such as completion of the audit and approval of securitization, the Standard Service power supply solicitation process, and the auction process for non-nuclear generation.~~

~~—————In order to meet the deadlines in the Act, WMECO suggests that a comprehensive schedule, as suggested and illustrated in Appendix A, be considered by the Department. Of course, the Company is fully willing to work with the Department as it develops its own schedule for reviewing and approving various elements of WMECO's Plan.~~

~~—————The Plan is described in detail in the separate chapters that follow, but, in summary, the eight basic elements of the Plan are:~~

~~—————**1. A Ten Percent Rate Reduction for Retail Customers.**~~

~~—————WMECO has filed illustrative rate schedules, supporting schedules and bill impact analyses that will provide a 10 percent rate reduction from the appropriate undiscounted class rates for those retail customers opting for standard transition service ("Standard Service"). This rate reduction is measured from the rates that were in effect as of August 1997, (excluding a temporary settlement credit of approximately 2.4 percent that expires on February 28, 1998). Thus, this filing reflects a 10 percent reduction from the rates that would otherwise be in effect on March 1, 1998. Section II of the Plan describes the development of new rates for each rate class.~~

~~—————While specifically not seeking a hardship exemption from the mandated rate reduction (as permitted by the Act), WMECO's financial viability over the remainder of~~

~~1998 and 1999 is dependent upon two critical measures to mitigate its costs during the period its rates will be reduced. First, an issue faced by WMECO alone among Massachusetts electric companies in implementing the rate reduction is how to modify its generation and cost sharing agreement that is currently in effect with other Northeast Utilities ("NU") system operating companies and that is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). The agreement, known as the Northeast Utilities Generation and Transmission Agreement ("NUG&T"), has provided for a pooling of system generating and transmission facilities to maximize the economic benefits of the entire NU system's generation mix for all customers of individual operating companies like WMECO and to mitigate all companies' generating costs.~~

~~——— The benefits of the NUG&T will be affected by the change in load that WMECO will experience as a result of retail competition and by divestiture of its generating plants, both of which will make that agreement no longer useful for its intended purposes.~~

~~However, WMECO believes it has devised an equitable procedure with regard to continuing the benefits of the NUG&T on a temporary basis until WMECO's non-nuclear generating plants are divested, which will allow the 10 percent rate reduction and customer choice to go forward on March 1, 1998. At the time of divestiture, WMECO expects to withdraw from the NUG&T in accordance with approval by the FERC. In the Plan, WMECO contemplates divestiture to occur as soon as June 30, 1998.~~

~~WMECO's approach for an interim continuation of the NUG&T and the reflection of its net benefits in the variable portion of the transition charge are addressed in Sections III, IV and V of the Plan.~~

~~Second, a further important issue relating to the 10 percent rate reduction is securitization. While WMECO will deliver the rate reduction as required on March 1, 1998, the expeditious securitization of transition costs is critical to further rate reductions and to the ongoing financial stability of the Company. In Section V.B of the Plan, WMECO discusses the considerations involved in securitization and the schedule it proposes to follow in order for the Company to securitize as large a portion of transition costs as soon as possible (the Plan proposes that securitization occur by September 30, 1998).~~

~~**2. Customer Choice of Energy Supplier for all Customers by March 1, 1998.**~~

~~Consistent with the Act, WMECO's plan provides that, beginning March 1, 1998, the Company's customers will have the opportunity to purchase electricity from any alternative supplier, subject only to whatever licensing requirements the Department may impose. Customer choice requires several enabling steps, including the unbundling of tariffs, and entirely new systems to handle the new interfaces needed between the distribution company, alternative suppliers and customers. These include programs for billing options, energy usage determination and estimation, transfer of data, transfer of funds, release of customer information and change in customer energy service provider. Certain of these issues are addressed in the Company's proposed Terms and Conditions, as described in Section VI.A.1 of the Plan. Further, the Company will work with utmost speed to accommodate the billing options set forth in the Act in the time period required in the Act. WMECO respectfully requests the Department to approve all needed tariffs and terms and conditions on a schedule that enables it to implement the customer notice,~~



~~billing, and other implementation issues on March 1, 1998.~~

~~———— 3. Standard Service Will Be Offered to Those Customers Who Do Not Choose an Independent Energy Supplier.~~

~~———— As required by the Act, WMECO will provide Standard Service to those customers who choose not to select an alternate energy supplier and back-up service ("Default Service") to those customers who are not eligible to return to Standard Service. The energy portion of WMECO's Standard Service price path is identical to those filed by each of the other Massachusetts electric companies. It begins in 1998 at 2.8 cents per kilowatt-hour and escalates at preset levels for the following six years. As further required by the Act, Standard Service will be offered over a seven-year period, beginning March 1, 1998, and it will be obtained, after WMECO's non-nuclear generating plants are divested and the NUG&T modifications are approved by FERC, through a competitive bid process, open to all bidders and administered by an independent third party retained by WMECO. Until the NUG&T is modified and WMECO's plants are divested, such Standard Service shall be supplied on an interim basis from NU system generation resources, pursuant to the NUG&T. WMECO asks that the Department review and approve this solicitation process and the interim supply arrangement. Standard Service and Default Service are discussed in Section III of the Plan.~~

~~———— 4. Recovery of Transition Costs.~~

~~———— Consistent with the Act and the restructuring plans filed by all other Massachusetts electric companies, the recovery of net, non-mitigable transition costs will be effected through a non-bypassable charge applied to all customers taking distribution~~

~~service. The four categories of transition costs are: (1) that portion of the net book value of generating plants that is in excess of the market value (before divestiture, 100% of net book value is reflected in the transition charge); (2) that portion of the value of contractual commitments for purchased power in excess of the market value; (3) regulatory assets; and (4) nuclear plant shut-down and decommissioning expenses.~~

~~WMECO includes in this filing detailed accounting information regarding its transition costs to facilitate the initiation of the comprehensive audit to be conducted by the Department on these costs. Consistent with plans submitted by other electric companies, WMECO proposes to collect initially, prior to divestiture and securitization, transition costs related to generating plant over a period consistent with the asset's current lives, and regulatory assets over 12 years. After securitization, WMECO proposes to collect generating plant and regulatory assets over a period commensurate with the term of rate reduction bonds issued to securitize transition costs, and to collect purchased power commitments and nuclear plant shut-down and decommissioning expenses over a term consistent with the length of these obligations. Section IV of the Plan provides detailed information on the calculations of transition costs.~~

~~———~~ **5. Mitigation of Transition Costs.**

~~———~~ The Act requires aggressive mitigation of transition costs. WMECO's plan accomplishes mitigation in several important ways.

~~———~~ First, consistent with the policy of the other Massachusetts electric companies that have filed restructuring plans with the Department, WMECO will divest its non-nuclear generation resources as expeditiously as possible. WMECO anticipates that divestiture

~~will occur through a competitive bid process administered by an independent third party retained by WMECO. Affiliated companies of WMECO, as permitted under the Act, are allowed to participate as bidders for the plants in the auction. WMECO asks that the Department review and approve this procedure to allow the auction to be completed as early as June 30, 1998. The auction of generation resources through this competitive process will establish their market value and maximize cost mitigation.~~

~~——— Second, as described previously with regard to WMECO's ability to achieve the required rate reduction, interim continuation of the NUG&T and near-term securitization are essential components of WMECO's Plan to mitigate transition costs.~~

~~——— Third, although a relatively smaller percentage of WMECO's transition costs are attributable to contracts with independent power producers, the Company has attempted to reduce its obligations that represent transition costs for these contracts. Currently, WMECO has two contracts with independent power producers. WMECO will make appropriate reports as required under the Act regarding its efforts to mitigate such transition costs. Further, the Company will also include these contracts as part of the resources that it expects to auction under its plan to divest its non-nuclear generating plants. The remaining over-market portion of these contracts will be reflected in the transition charge.~~

~~——— Fourth, WMECO believes that an important means to mitigate its largest component of transition costs, nuclear investment, is to create a performance-based approach for sharing the economic benefits of their operation as a direct offset to WMECO's transition costs. WMECO's ownership interest in three nuclear units at~~

~~Millstone Station, when they return to service, is expected to generate significant economic benefits, even in a competitive power marketplace. WMECO proposes an interim sharing mechanism that will capture these benefits as a reduction to transition costs.~~

~~Finally, an additional element of mitigation is the comprehensive audit required by the Act. WMECO believes that the comprehensive audit can go forward immediately and WMECO is ready to meet with the Department or any outside auditor engaged by the Department to arrange for the transfer of any relevant information in order to move the process forward expeditiously. Material that can be provided now includes financial statements that have been audited by Arthur Andersen. To help the Department in developing a request for proposals for the comprehensive audit, WMECO is preparing a draft Request for Proposal and a list of large independent auditing firms, which it will submit as Appendix B, that the Department could consider.~~

~~The details of the first four elements of WMECO's mitigation are discussed in Section V of the Plan.~~

#### ~~**6. Universal Service.**~~

~~Under the previous regulatory framework, an electric company had the obligation to provide integrated electric service to all customers in its service territory. In the new regulatory framework, WMECO will retain the obligation to provide distribution and transmission service to all customers in its service territory. Further, it will be required to arrange for the provision of Standard Service or Default Service for those customers who do not have an alternate supplier. In addition to the services provided to all~~

~~customers, the Plan allows existing low-income residential customers, as required by the Act, to have the right to return to Standard Service at any time. Thus, all customers will be assured of universal service on a basis at least equivalent to that provided today. Section VI of the Plan provides a description of WMECO's approach to provide universal service.~~

## **7. Energy Conservation and Demand-Side Management**

WMECO has been a leader in the development and implementation of demand-side management ("DSM") programs and will continue this development and implementation pursuant to the funding levels set forth in the Act. ~~The Department has begun an investigation of WMECO's planned DSM activities over the next five years in another proceeding (D.P.U. 97-106).~~ **On February 20, 1998, the Department approved a Joint Motion for Approval of Offer of Settlement that was filed by the Company, the Attorney General, the Division of Energy Resources and the Conservation Law Foundation in WMECO's Five-Year Energy Efficiency plan (D.T.E. 97-106). This settlement was a comprehensive resolution of all issues associated with the Company's Energy Efficiency plan, 1998-2002, including DSM budgets for 1998 and 1999 and DSM energy savings.** WMECO's DSM programs and associated activities are detailed in Section VII of the Revised Plan.

## **8. Employee and Community Impact**

The restructuring of the electric utility industry is likely to have an impact on all electric company employees over time. However, WMECO will keep its employees informed of the changing environment and, if needed, will include in its transition costs a

mechanism for collecting sums that may be required for severance, retraining, early retirement, out placement, and related expenses for all affected personnel.

With regard to community impact, the issue that has been most prominently discussed has been the possible decrease in taxable value of generating stations and the resulting decrease in taxable property for the affected municipalities. The Act requires electric companies to offset decreases in property tax payments at a level that decreases over time. WMECO's generation assets in Massachusetts are fossil/hydro assets and decreases in taxable valuation will be known when WMECO's auction of these generating assets are complete. Section VIII of the Revised Plan explains the impacts on employees and communities and shows those municipalities in which WMECO's generation is a significant portion of the municipalities' taxable base and explains WMECO's plans to address these impacts.

## **II. THE 10 PERCENT RATE REDUCTION, RATE UNBUNDLING AND ENABLING CUSTOMER CHOICE**

### **A. Introduction**

The normal process for establishing rates for regulated utilities is through the rate case process wherein the utility's costs are reviewed to assure that they are just and reasonable, and then rates are designed to produce revenues from consumers that are sufficient to recover those costs. The Act, in effect, results in a rate setting process that reverses the order of these steps. That is, the Act requires rates to be reduced by 10 percent, and then utilities must determine how to manage their costs, including recovery of transition costs, within this reduced level of revenues.

**B. Financial Accounting**

The Act provides that, if an electric company cannot produce the required rate reductions while maintaining sound financial condition then it can apply for relief under certain hardship provisions. This provision in the Act is important to WMECO, since their ability to retain the special accounting treatments permitted to regulated entities is contingent upon the rates they charge being based on costs. WMECO is not seeking a hardship exception. However, in its Revised Plan, WMECO has structured its cost recovery related to charges that remain regulated such that they will be cost based. Specifically, WMECO has sought approval of deferrals, with appropriate assurances of recovery that would satisfy accounting standards, for certain interim generating costs within its transition charge, and the difference between prices paid for Standard Offer Service supply and the retail revenues granted. Further, if circumstances create significant financial difficulties for a utility in producing the required rate levels, the Act provides an opportunity for the utility to apply for hardship relief. If approved as submitted, WMECO does not believe that the Revised Plan would create financial difficulties associated with accounting standards. Section V of the Revised Plan provides the cost basis for WMECO's charges that produce the required rate reduction.

**C. Rate Unbundling**

Conceptually, the implementation of the 10 percent rate reduction, through the development of unbundled tariffs, is a straight-forward process. This section of WMECO's Revised Plan explains the method by which WMECO has developed unbundled rates necessary for customers to choose alternative suppliers of power. In



addition, it explains how the unbundled rates produced at least a ten percent rate reduction for those customers who did not choose an alternative supplier on March 1, 1998 and an enhanced saving beginning July 1, 1998. The Company has included, as Exhibit 1, a tariff listing and the tariffs which implemented retail choice on March 1, 1998 as modified on July 1, 1998 to reflect an additional 2.4 percent decrease from undiscounted rates authorized for August 1, 1997. Exhibit 1 also contains the Standard Service tariff, the Default Service tariff and the riders by which the functional elements' revenue collections will be made whole through true-up mechanisms. These elements are Transmission, Generation (Standard Service and Default Service) and Transition.

Each of the tariffs has been unbundled into the four functional elements; the three cited above and Distribution. The charges for each of the functions are separately stated so that customers can identify which portion of a tariff or bill is for each function as well as how that function's revenues are collected, (i.e., using combinations of customer, demand (per kilowatt) charges and energy (per kilowatt-hour) charges). If the types of charges (customer, demand and energy) in the proposed tariffs are summed across the functions and compared to the rates previously in effect, the sum of the customer charges, the sum of the demand charges and the sum of the energy charges are ninety percent of the pre-discount tariffs in effect on August 1, 1997. This comparison is provided in Exhibit 2. This side-by-side comparison of each tariff's charges shows how the proposed tariffs produce the required discounts without causing intra-class discount variations between customers. While somewhat redundant, Exhibit 3 provides, for each rate, side-by-side comparisons of typical bills computed on pre- and post-discount tariffs.

These also demonstrate that the 10 percent rate reduction has been provided for in the first year.

WMECO began the development of its unbundled rates by first defining the rates against which the ten percent rate reduction is to be applied. A rate schedule at pre-discounted revenue levels was calculated for each rate class, which included -- as appropriate -- customer, demand and energy charges. These base rate schedules were based on the Company's rates as of July 1, 1993 (D.P.U. 91-290), modified to reflect the roll-in of lost base revenues allowed in D.P.U. 94-8C-A, D.P.U. 95-8C-1 and D.P.U. 96-8C-1 (4/30/96) and further modified to reflect the Company's Fuel Expense Adjustment Clause, Energy Conservation Charge Service Rider ("ECS") and conservation charges as of August 1, 1997. This was shown in Exhibit 4. Each tariff's billing components were then reduced by ten percent. Each rate schedule was then apportioned into the four functional elements. It was during this step that necessary charges, such as uniform Standard Service and transition charges (and any known revenue target, such as transmission costs), were assured. Finally, various billing component and bill comparisons were produced to demonstrate the ten percent discount.

The development of the proposed, unbundled rates involved complex calculations which themselves required a number of assumptions. Details of the calculations, assumptions and the grounds for the assumptions have been provided in various exhibits discussed below. Supporting workpapers were provided in Exhibit 5 and unbundled revenues were shown in Exhibit 6. The following material also describes the administrative and revenue consequences of functionally unbundling tariffs for certain

classes of customers, including the proposed elimination of certain rates which no longer have meaning in the context of a distribution company offering unbundled services.

### **1. Test Year**

To consistently move between revenues and unit charges, it was necessary to select a test year with known billing units. In the rate design process, it is less important which test year is used, than it is to use it consistently. In keeping with Department preference for using historic test years, the Company selected a test year through the end of August 1997.

### **2. Ten percent discounts**

The Company interpreted the Act to require ten percent rate reductions for all tariff customers, except those who might get a greater discount as provided under the Act for low income and farm customers. This virtually required that each rate component (i.e., customer charges, demand charges and energy charges) of pre-discount rates be reduced by ten percent. If any alternative interpretation or rate design standard were used, there would be discount variations between customers within rate classes. The unit charges of the pre-discount rates were established by summing the base, fuel, conservation and ECS charges, and reducing these charges by ten percent. These reduced charges were then the target totals of the charges of the Standard Service, Transmission, Transition and Distribution charges. By assuring that these target charges were hit, it is assured that each customer receives the target discount.

### **3. Rate design**

Given all of the revenue, rate reduction, and rate design constraints, it was

necessary to establish which of the four unbundled rate components' revenue targets was to be the residual component (i.e., the component for which the revenue was the remainder after all other known revenues were removed from the total revenue).

Because the revenue required to sustain a distribution function, to pay for transmission service, and to provide for Standard Service energy were determined, the residual revenue was the transition revenue (which then served as the basis for structuring recovery of WMECO's transition costs in a cost-based manner described in Section II.B).

By virtue of this definition, the transition revenue equaled ninety percent of the total pre-discount revenue subject to discounting plus contract, back-up and interruptible rate revenue not subject to discounting minus required transmission revenue, minus Standard Service revenue at \$0.028 per kilowatt-hour, minus the total revenue required by the distribution company. This revenue was divided by the total test year kilowatt-hours ("kWh") to produce the required uniform transition charge applicable, which the Company now applied to each rate class in the rate design process, described below. The calculation of this charge was provided in Exhibit 7.

Rates for each rate class were then designed as the next step. As noted above, the Standard Service is priced uniformly for all rate classes at \$0.028 / kWh and the uniform, average transition charge per kWh was established, as determined above. Rate specific transmission charges were determined by allocating the total transmission revenue requirements (determined as the charges the Company will be billed based on FERC approved rates, for the load it will serve) using the embedded cost-of-service study ("COSS") provided in the Company's last rate proceeding, D.P.U. 91-290. Because the

kWh sales to several rate classes have changed materially since that 1991 docket, the rate class revenue requirements per kWh from the COSS were multiplied by the test year kWhs and uniformly scaled to the total revenues. This calculation was shown in Exhibit 8. A copy of the transmission COSS used was provided in Exhibit 9. Now, with the uniform Standard Service charge, the uniform transition charge, and the rate specific transmission charges being known, the residual in the final rate design process, at the rate class level, was the distribution charges.

All of the above was accomplished and filed with the Department on February 27, 1998. The tariffs contained in that filing were used in billing usage on and after March 1, 1998.

Subsequently, the Company instituted another revenue reduction to reflect the difference between the rates being billed on August 1, 1997 and the rates in effect on that date as discussed in the third paragraph of this section. This produced a decrease of 2.4 percent in base rates, or about 2.0 percent in rates where fuel had been folded in. This filing was filed submitted on July 1, 1998 and the lower rates became effective on that date.

Because this rate reduction was not mandated by the Massachusetts restructuring legislation, it applied to all customers, including those served under contract, pursuant to the terms of each contract.

#### **4. Standard Service and Default Service**

The Company provides power to those customers that elect to take supply from

the Company or prefer not to select a supplier other than the Company. This power supply delivered under the Standard Service will be purchased competitively in the open market.

Customers who are served on Standard Service at the time that a municipal aggregation is formed within the customer's community and who exercise their rights to opt out-of-service from such municipal aggregation within 180 days, shall be allowed to return to Standard Service at that time. Also, Low Income Discount customers will be allowed to return to Standard Service.

Default Service is offered to customers that have selected to procure their power supply from sources other than WMECO, and, who later opt to have WMECO provide their power. This attribute is akin to the service provided under the Company's back-up service Rate PR where the customer produces its own power and returns to WMECO for its supply when its generation is not in operation. For this reason, Rate PR will be eliminated after one year as discussed in Section 7.c. After this time, customers wishing back-up service will take firm distribution service and obtain their power needs in the market or under the Company's Default Service.

## **5. Low Income Discount (LID)**

Qualifying customers, prior to March 1, 1998, received a thirty-five percent discount on their base rates. After March 1, 1998, such customers received the LID on the distribution and transition portions of the rate that reflected the ten percent discount. After July 1, 1998, customers receive the LID on rates reflecting the enhanced discount as shown in Exhibit 10.

Because the basis on which the LID percentage is applied is larger due to the inclusion of the fuel charges, the LID percentage is reduced. The determination of the new LID percentage is provided in Exhibit 10. While the LID percentage is smaller, it applies to a larger portion of the customers' bills and the dollar level of the LID remains unchanged.

The recalculated LID percentage for Rates R-1 and R-3 produce slightly different percentages, (because the fuel portion of these rates' bills is different and transition and distribution portions of the rates are also different). These percentages are close enough to each other suggesting that there need be only one LID percentage applicable to both rates.

In its last rate case, the Company determined the total LID and re-allocated it to other rate classes. Since then, the LID level has increased, creating a Company subsidy, but, the LID, up to its current level, will not cause any additional intra-rate class revenue impact. However, to the extent that the qualification hurdle has changed to make the LID available to more customers, there will be additional revenue erosion experienced by the distribution company. The Company cannot shift initially any additional LID revenue shortfalls to other rate classes because to do so would violate the goal of providing all customers with a ten percent discount. In determining the unbundled rate prices, the Company has assumed that the number of recipients and total LID revenue will not change in the future.

The Company will collect detailed information on the discounts it provides to new LID customers and seek the recovery of these discounts at a later opportunity within

the rate caps specified in the Act.

The Company has changed its design of the LID to accommodate Department regulations. The discount now applies only to the distribution and transition portions of the bill, and LID customers are free to receive service from any competitive supplier.

## **6. Farm service**

Farm customers, taking both firm and interruptible service, receive an additional ten percent discount off of the already reduced general service rates. Because of the constraint that all customers are to receive a ten percent discount, there is no opportunity to collect the additional farm discount from other customers. Because of this, WMECO implemented a Farm Discount Rider to provide farm customers with the additional discount.

WMECO has worked with the Department to establish certification criteria to identify and track its farm customers.

The Company will collect detailed information on the farm discounts it provides to seek the recovery of these discounts at a later time consistent with the rate caps specified in the Act.

## **7. Treatment of certain rates**

WMECO presently has a number of rates which do not readily translate into new rates in the unbundled electricity industry structure; the cost-based, regulated nature of the distribution company and the reliance upon the market to provide power-based options. Rates on which no customers are presently taking service are proposed to be



eliminated as soon as the Department will allow.

There are some rates which should be eliminated, but cannot be eliminated without adverse rate impacts to the customers taking service on them. These include certain optional time-of-use rates for smaller and intermediate general service customers, interruptible rates and back-up rates. In fairness to the customers presently on these rates, WMECO proposes continuing these rates, as provided below, to allow these customers time to explore and select alternate service arrangements.

Rate	Year Eliminated
Small Residential Time of Use, Schedule R-4	1998
Large Residential Time of Use, Schedule R-5	1998
Small General Service Time of Use, Schedule T-0	1999
Primary General Service Time of Use, Schedule T-4	1999
Interruptible Service Menu, Schedule I-1	1999
Intermediate Interruptible Service Menu, Schedule I-2	1998
Buy-Back Interruptible Service, Schedule I-3	1999
Demand Reduction Rider to Rate T-2	1998
Service Extension Discount Rider	1998
Energy Conservation Service Rider	1998
Conservation Charge Rider	1998
Retail Fuel Expense Adjustment Clause	1998
Standby and Supplemental Power Service for Partial Requirements General Service Customers, Schedule PR	1999

- a. Small General Service Time-Of-Use, Schedule T-0 and Primary General Service Time-Of-Use, Schedule T-4 are optional, time differentiated alternatives to Rates G-0 and G-2. Customers on Rates T-0 and T-4 benefit because their usage in off-peak hours is greater than average. If optional Rates T-0 and T-4 were eliminated, and the customers on them were returned to the corresponding G-0 and G-2 rates, they would get rate increases. The Company proposes keeping Rates T-0 and T-4 for one year. At that time, customers would be returned to the corresponding G-0 and G-2 rates. During that time, the customers would be eligible for Standard Offer Service if they did not elect to secure an alternate source of supply.
- b. Interruptible rates on which customers are now taking service will be eliminated on in one year. This will create a rate discontinuity for the customers now on these rates. Customers on these rates now pay lower rates -

- they are taking a lesser quality service. The present interruptible rates were designed as the sum of WMECO's marginal costs which produce only 60 to 70 percent of embedded cost requirements. Going forward, these previously foregone revenues (embedded costs in excess of marginal) will be collected in transition charges. Now that these customers will be paying transition charges and firm distribution delivery charges, their rates will increase materially.

The fact that WMECO's interruptible rates produce insufficient revenues has been noted previously. In the spring of 1995, the Company requested, and the Department approved, the elimination of interruptible rates. The Department ordered the Company to inform its customers on interruptible rates that these rates would be unavailable after the five years of the rates' terms. To be fair to these customers, WMECO proposes continuing to offer interruptible service to its current customer for one year to allow these customers to fully explore their options and to fulfill their expectations that the Company would provide such services for five years.

For the period, WMECO will price its interruptible rates using WMECO's marginal cost of Standard Offer or Default Service supply. During the year, the Independent System Operator ("ISO") has access to these customers' interruptible load, WMECO can incorporate this load in its considerations as it procures a source of Standard Service, and the customer will have up to a year to evaluate its options and to procure its desired power supply. Alternatively, these customers will be able to obtain any energy source they

wish and to take firm delivery on the appropriate WMECO general service tariff.

- c. Backup Service Rate PR is also being eliminated in one year. This will materially impact the four Rate PR customers because, under today's rate, they pay for the distribution service they receive, but their contribution to the embedded costs of generation and transmission can be as low as \$2.00 / kW-month. This contribution is very small compared to the embedded costs that will be reflected in, and collected through, the transition charge.

Out of fairness to these customers, the Company proposes continuing to provide backup service under Rate PR for one additional year after March 1, 1998 to provide these customers time to investigate their options and to make alternate arrangements.

Rate PR works by referring some charges back to the otherwise prevailing general service rates. Because these referenced general service rates have been discounted going forward, Rate PR customers will get this discount by reference. Rates that are contained within the existing PR tariff will not be discounted by ten percent.

It is not possible to fully unbundle Rate PR because the Production / Transmission charge, which is dependent on the customer's historic usage during the prior 24 months, is subject to a minimum charge and varies monthly with customer usage. Unbundled charges can be provided in the form of allocation of revenue. When energy is taken under this rate, the

Standard Service charge per kWh and the Rate T-2 Transmission charge per kWh are known. In all months, remaining Rate PR revenue would be allowed to the Transition charge and lastly, to the Distribution charge, to the extent that any revenue remains.

The Company has modified its flexible rate riders; Business Recovery, Competitive Generation and Business Retention and Economic Development. In its December filing, the Company proposed, effective March 1, 1998, to eliminate rates on which no customers are presently taking service. Based on Departmental order, Rates R-4, R-5, I-2 and Demand Reduction Rider were not eliminated, and the Company now proposes their elimination at the Department's earliest authorization.

In the Department's February 20, 1998, the Company was ordered to maintain rate schedules Small General Service Time-Of-Use, Schedule T-0 and Primary General Service Time-Of-Use and Schedule T-4. The Company continues to propose the elimination of these rates.

The Department's interim order did not accept the Company's proposed schedule to eliminate interruptible rates and Rate PR and made interruptible rates and Rate PR eligible for the ten percent discount. WMECO continues to seek the Department's acceptance of its positions on these issues.

## **8. Treatment of contracts**

Contracts between the Company and customers have been used, with Departmental approval, to address situations where general service rates were inadequate

to address a customer's unique electrical service pricing need.

The Company allowed customers presently getting discounts of less than ten percent, to cancel their contracts, effective March 1, 1998 so that they could return to the otherwise applicable general service rate, thereby getting the ten percent rate reduction. With this treatment, the customers got further rate decreases. An example of this is Service Extension Discount ("SED") customers, who previously received a five percent discount on base bills, received the ten percent rate reduction without incurring any of the early cancellation penalties in the SED rider.

Alternate arrangements were offered for the remaining contract customers that previously were receiving discounts in excess of ten percent. The Company will honor all existing contracts as long as these customers remain on Standard Service. Contract customers wishing to secure alternate energy supply will be allowed to do so as regular service customers only.

In compliance with the Act, the Company reviewed, re-negotiated as necessary and revised any of the remaining contracts to assure that no customers receive any additional price reduction resulting from the general rate decreases. Some contracts provided prices by referencing general service rates. With these general service rates now discounted, these contract customers would have obtained additional discounts unless these contracts are modified. Modifications were made to reflect the existing applicable general service rate prices to assure that these contracts do not get any additional discount. On July 1, 1998, the Company reduced rates to reflect an additional 2.4% decrease for undiscounted rates authorized for August 1, 1997. The

Company granted this rate decrease to contract customers to whom, under the terms of their contract, rate changes were applicable. However, contracts remain ineligible for the ten percent reduction implemented on March 1, 1998.

#### **9. Other charges and fees**

Requests of the Company to provide customer data by both customers and marketers have already become numerous. To avoid confusion regarding which data exchange services will be provided and which will be provided for a fee, WMECO has proposed charges as shown in Exhibit 11. This Exhibit enumerates the services that will continue to be provided free to WMECO's customers, as well as the charges that will apply to other requests or those requested by non-customers.

Fee schedules for other services will be submitted subsequent to Departmental directives in Terms and Conditions, D.P.U. 97-65. The Company's current Terms and Conditions are filed as Exhibit 12.

### **III. PROVISION OF STANDARD OFFER AND DEFAULT SERVICE**

#### **A. Introduction**

On January 30, 1998, WMECO mailed an RFQ for a Standard Offer (SO) solicitation to approximately 200 potential suppliers. Legal notices about the RFQ were placed in the Wall Street Journal, the Boston Globe and the Springfield Union News. WMECO only received one response to its RFQ, which was from an NU affiliate. This RFQ was similar to other utilities' solicitations, but to date, no Massachusetts or Rhode Island SO solicitation process has subscribed a single conforming bid for SO

procurement.

There are many pricing and tariff issues that are still unresolved to date, including: potential delays in the implementation of the New England Power Interchange; ancillary services cost uncertainties; and transmission tariff ambiguities. Other uncertainties persist to this day, including: unknown SO energy and capacity requirements during the transition period; limited access to generation resources (for potential suppliers or marketers); the bulk of generation divestiture has not yet taken place; and continued reluctance by potential suppliers to participate in price capped SO solicitations. These uncertainties may continue to limit supplier participation in the SO solicitation process.

In order to conduct a successful solicitation, WMECO has developed a new SO strategy, which is designed to overcome many of the market uncertainties that have become apparent since WMECO's original filing. A draft RFQ is attached as Appendix C.

**B. Solicitation Goals and Objectives**

To be successful in a solicitation of this magnitude, the Company needed to identify the overriding goals it hoped to accomplish through this effort. The goals that WMECO hopes to address through this solicitation process are to: conform with regulatory and legislative requirements; minimize cost of service for SO customers; minimize risk to shareholders; provide a robust solicitation (i.e., receive several proposals); and provide reliable service to WMECO's SO customers. With these goals in mind, the Company believes that four objectives can be utilized to accomplish those



goals. The objectives that the Company has selected to use in this process are to: maximize the flexibility for respondents by placing no unnecessary constraints on the market; minimize the financial risk to the Company associated with the recovery of deferred SO energy and related costs; create confidence in the SO procurement process by encouraging the participation of an additional neutral observer(s) of the solicitation process; and provide adequate protection from contractor non-performance.

**C. Solicitation Design**

The Company's new SO solicitation integrates several design parameters in order to meet the stated objectives. To eliminate unnecessary constraints on the market, the Company proposes to remove all suppliers' "Stipulated Price Caps" from the solicitation on the condition that its proposal be allowed to defer the difference between the supply price of the winning bidder and the price charged to retail customers. WMECO believes that to minimize the financial risk to the Company, the solicitation must offer an RFP that will generate a robust response. To do so, WMECO will offer multiple bidding options that respondents can utilize to develop their proposals. To facilitate the participation of a neutral observer, the Company has retained the firm of Rumla, Inc. of Walnut Creek, California, an independent third party to help in the selection of the Standard Offer Service supplier(s). Rumla, Inc. has had no prior contractual agreements with NU. In addition, WMECO is open to the involvement of another neutral observer in the evaluation process of the submitted proposals who represents the concerns of the Attorney General Office, the Division of Energy Resources and the Department.

To conduct a solicitation that will generate a robust response, WMECO believes

it must be flexible in accepting a variety of proposals from the market. As such, WMECO has revised its proposal.

In the RFP, WMECO identifies multiple options potential suppliers can utilize in developing their proposals. Suppliers using Option I in their proposal, will bid to serve WMECO's entire SO load responsibility. Under this option, only one supplier will be awarded a contract. The winning supplier will be paid an amount equal to the product of its bid price (in cents/kWh) and the WMECO entire SO load responsibility measured at customers' meters for the payment period in question.

Option II is designed to allow potential suppliers the opportunity to supply WMECO with Base Load Service. Under this option, potential suppliers will bid to serve around the clock firm energy blocks at 100 percent load factors. WMECO will identify the amount of Base Load energy required each year. Respondents may offer to serve any block size in a particular year within a minimum bid of one MW and the maximum amount required for that year. Every supplier must bid to supply load throughout the seven year period. WMECO may select several "Base Load Service" suppliers to meet the needs of its SO customers. This option works in tandem with Option III, "Load Following Service." Each winning supplier using this option will be paid, on a periodic basis, an amount equal to the product of its bid price (in cents/kWh), the MWs of capacity the supplier is contracted to provide and number of hours in the applicable billing period. Bid prices for Base Load Service must be inclusive of the suppliers' costs of all energy, capacity and associated NEPOOL ancillary services and other expenses over the Transition Period. Sellers of Base Load Service will be

responsible for their pro-rata shares of NEPOOL charges as determined by the provider of the Load Following Service. (See Option III below.) If the total amount of Base Load bids for any year is less than the total megawatts solicited for that year, WMECO will designate the shortfall as an obligation that would be included in the total Load Following Service requirements eligible for the bidders selecting Option III.

WMECO offers a third option whereby suppliers would bid to serve and manage the total Standard Offer Service load responsibility net of the total energy provided by "Base Load Service" suppliers (Option II). Under this option, only one "Load Following Service" supplier will be awarded a contract. The winning supplier will be paid an administrative charge and a performance based bonus, both must be specified in its bid. Each bidder will be asked to propose their two-part price for Load Following Service at two separate levels of commitment. The first commitment level will equal the projected Load Following requirement net of the total Base Load Service (awarded under Option II). The second level (assuming no Base Load Service is awarded) will equal WMECO's total SO load obligation for each year in the Transition Period. WMECO will assert that none of these levels should be interpreted to represent a forecast of WMECO's actual future Load Following SO requirements. The winner of Option III will be responsible for meeting all NEPOOL ancillary service and other charges associated with serving the entire SO Load obligation of WMECO on a continuous basis throughout the Transition Period. Such winner will determine the Base Load provider(s)' (if any) pro rata share(s) of the NEPOOL charges and pass them over to the supplier(s) of the Base Load Service either directly or through WMECO (which will then apply such charges and credits to be

netted out of the payments for Base Load power).

Finally, WMECO offers a fourth option that allows potential suppliers to submit bids that are non-conforming with the options mentioned above. Certain suppliers may not be capable of, or desire to submit bids in accordance with any of the above options. Such suppliers are able to submit alternative proposals if they can provide added value to WMECO's Standard Offer to customers. The added value should be translatable into reduced cost and/or lower risks. Under this option, for example, suppliers may submit single year or partial load requirement bids.

**D. WMECO's Solicitation Schedule**

The steps WMECO plans to use in the Standard Offer solicitation are listed below. The schedule WMECO ultimately uses will be influenced by the date the Company receives a decision from the Department on this solicitation process and could be influenced by the magnitude and variety of responses the Company receives. It is anticipated that this RFP could be issued within one week of an order from the Department. The New England wholesale power exchange markets will become operational on the Second Effective Date of the Restated NEPOOL agreement and at this time, the Independent System Operator - New England, Inc. ("ISO-NE") anticipates that this will occur on December 1, 1998. If this event is delayed, this too could affect the Company's schedule.

Issue RFP	10 days after DTE order
Intent to Attend Technical Conference	1 week after RFP
Technical Conference (1/2 day)	2 weeks after RFP

Bids Due	4 weeks after RFP
Suppliers Selected	8 weeks after RFP
Contract Signing	11 weeks after RFP
Service Begins	15 weeks after RFP

**E. Evaluation of Solicitation Proposals**

To select the winning proposal(s), the Company will do the following: make a comparison of competing bids in terms of the total net present value (NPV) of the cost of service for the entire Transition Period; make a progressive (year-to-year) comparison of the cumulative annual present values of the cost of service of the competing bids; and perform a risk analysis of competing bids in relation to price and load forecast uncertainties. Analysis techniques will have to be developed for evaluating non-conforming bids on a comparable basis after such proposals are received and WMECO will make every effort to evaluate all alternative bid options on an equal footing with bids using the first three options. In general, WMECO will select winning supplier(s) based on the combination of proposals that result in the lowest SO composite cost delivered to customers' meters.

WMECO will develop a single "Benchmark" load projection (and associated sensitivity scenarios) of its Standard Offer Service obligations for the seven year transition period. This projection will be applied equally to all bids or combination thereof for evaluation purposes. These evaluation parameters will be fully documented but will remain confidential during the entire evaluation process.

**F. Default Service**

In recognition of the Company's service obligation, WMECO plans to arrange for Default Service as of March 1, 1998 for those customers who have chosen retail electricity from a non-utility affiliated generation company or supplier, but who require electric service because of a failure of such company or the supplier to provide contracted service, or who, for any reason, have stopped receiving such service and are ineligible for Standard Offer, and to all customers at the end of the term of the Standard Offer.

Service to individual customers under this option is expected to commence on each customer's normal cycle meter reading date following notification/determination that the customer will be taking Default Service. WMECO's procedures are designed to provide for customers to be switched from one service option to another (e.g., from Standard Offer to a non-regulated power producer, from one non-regulated power producer to another non-regulated power producer, and from a non-regulated power producer to Default Service) on their normal cycle meter reading dates. However, there may be circumstances (e.g., default of a non-regulated power supplier) that might require a customer to be switched to or from Default Service "off-cycle." In such cases, the customer will be switched on a date designated by the Company.

The Default Service supplier's obligation to provide service to individual customers taking Default Service shall terminate on the earlier of: (i) the customer's normal cycle meter reading date in the month that the supplier's obligation to supply ends as stated in the Default Service Power Contract; (ii) the customer's meter reading date following notification/ determination that the customer is terminating Default

Service; or (iii) such other date designated by WMECO, which will be no later than the customer's normal cycle read date in the month that the supplier's obligation to supply ends as stated in the Default Service power supply contract. Reasons for termination may include, but are not be limited to: (i) a customer's taking competitive service from a non-regulated power producer; (ii) disconnection of service by WMECO in accordance with regulations and procedures approved by the Department; (iii) closing of a customer's account; or (iv) a request or order from the Department.

Customers will be free to leave Default Service in favor of a competitive power supplier. There will be no limit on the number of times a customer can return to Default Service.

Until there is a fully functioning New England independent system operator (ISO) market system, it will be difficult to establish a separate Default Service solicitation process. At this time, WMECO proposes to continue to price to customers Default Service at the same cents/kWh as Standard Offer Service until the scheduled start of energy flow through a Standard Offer Service contract(s). After a Standard Offer Service contract(s) is signed and until there is a functioning independent ISO, the price of Default Service will be determined by the market. Once the independent ISO demonstrates that it is functioning with respect to energy, capacity and ancillary services, WMECO will distribute an RFP for Default Services. WMECO currently anticipates that it would be able to submit this RFP within 30 days after the ISO is fully functioning. WMECO also will evaluate the effectiveness of the Standard Offer Service contract(s) and the market conditions at the time to develop the specifics of the Default Service RFP.

## **IV. TRANSITION COSTS**

### **Introduction**

The identification, calculation, accounting and mitigation of transition costs are critical elements of the Revised Plan. Under the Act, WMECO is allowed to recover all costs associated with net, non-mitigable commitments undertaken to provide electricity to customers in their service territory in accordance with its obligation to serve. This portion of WMECO's Revised Plan describes the determination of transition costs, mitigation measures, the calculation of cost-based transition charges that produce the same level of revenues as those included in the rate designs described in Section II of the Revised Plan, and the Company's suggested approach for the Department to conduct the independent audit of these costs.

In Exhibit 13E, WMECO has provided a calculation of the transition charge for implementation during the period from March 1, 1998 ~~until the date of divestiture of its non-nuclear generating plants and the resulting modification of the NUG&T (as discussed below in Section V). By January 31, 1998, WMECO will file calculations supporting its proposed transition charges for the period following divestiture. (Please note that WMECO will file Exhibit 13 by January 9, 1998.)~~ **through December 31, 2010.**

### **Determination of Transition Costs**

WMECO's transition costs are composed of fixed components related to existing investments in generating plants and regulatory assets, and variable components related to costs for which contractual or other unavoidable commitments have been made into the future.



The fixed costs related to WMECO's nuclear, fossil and hydro generating facilities are the net plant balances as of December 31, 1~~December 31, 1995~~, adjusted for capital additions committed prior to that date but made subsequent to that date, ~~depreciated through~~ February 28, 1998. Descriptions of these units are included in the pages of WMECO's FERC Form 1 report for 1995. These pages are included as Exhibit 14 to the Revised Plan.

The transition charge that will be included in rates as of March 1, 1998 reflects amortization of these costs over their existing, remaining lives. When divestiture of non-nuclear and nuclear generation occurs, the net value of the proceeds realized through divestiture will also be reflected in the calculation of transition costs and charges. When securitization occurs, the costs of those assets that are securitized will be amortized over the same period as repayment of the rate reduction bonds.

The variable component of transition costs includes above-market payments for purchased power, future power contract buyouts, nuclear decommissioning costs, and future nuclear costs independent of operation. It also provides for recovery of any above-market fuel transportation costs, payments in lieu of property taxes, generation-related transmission support payments ~~not included in transmission~~ , employee severance and retraining costs, damages or costs or net recoveries from claims, and the costs associated with the operation of the transition cost mitigation mechanism designed for the nuclear entitlements. During the interim period prior to divestiture, the net effects of the NUG&T cost sharing mechanism will be included in the calculation.

#### **Nuclear Transition Costs**

The largest portion of WMECO's transition costs are related to its investment in nuclear plants at Millstone Station in Waterford, Connecticut. The Company is a joint owner of three nuclear plants at the site, representing ownership shares as follows:

	<u>Total Unit Capacity</u>	<u>WMECO Share</u>
Unit 1*	660 mw	19%
Unit 2	870 mw	19%
Unit 3	1,150 mw	12.24%

\*Retired on July 24, 1998.

Costs associated with these plants include the carrying charges on the investments made in those plants (return of the investment through depreciation expense and return on investment representing interest expense and a return on the equity invested), carrying charges on capitalized plant additions, nuclear fuel, non-fuel operating and maintenance expense, property taxes, payroll taxes, and income taxes. Recovery of these costs under the Company's Revised Plan will be as described below. A detailed description of the calculation of these costs is provided in Exhibit 13E.

### **Carrying Charges on Investment**

Return of the previously made investment will be accomplished by means of including an annual amortization charge associated with that investment as a recoverable item through the transition charge. Initially that amortization charge will be based upon the unrecovered net book value as of February 28, 1998 on the Company's books,

excluding any capital additions authorized after December 31, 1995 **but including capital additions committed to prior to that date**, with recovery over the remaining license life of the particular unit in question. ~~The net investment shall include the projected unrecovered balances for final core and end-of-life materials and supplies for the nuclear units.~~

Return on the investment will also be collected by applying the weighted cost of capital as of December 31, 1995, grossed up for collection of associated state and federal income taxes, to the average of the beginning and ending balances of depreciated unrecovered book value for each year. As demonstrated in Exhibit 13E, Schedule 2 the Company has reduced its Return on Equity ("ROE") on transition cost assets in order to obtain a cost-based transition charge which is consistent with the amount of transition charge which will be reflected in rates beginning on March 1, 1998. As described in Exhibit 13E narrative, WMECO has proposed to create a deferral related to this foregone return, and collect it in 1999 to the extent possible under the rate cap.

WMECO has reflected in the transition charge the impact of the retirement of Millstone 1 on July 24, 1998. The Company will **commit to divesting its Millstone 2 and 3 assets no later than December 31, 2003. It is expected that WMECO's ownership interest in Millstone 2 and 3 would be sold at the same time as the majority owner, CL&P, divests of its share of the units.** ~~file with the Department a proposal for the market valuation of the Company's investment in the Millstone nuclear plants. WMECO proposes that this filing be made no later than December 31, 2009 and that the valuation be completed within three months of submittal. Further, WMECO proposes that, within~~

~~three months of the completion of the market valuation of the Millstone plants, the revenue requirements related to the change between the nuclear investment reflected in the transition charge prior to such date and that determined to be "at market" will be reflected as a reduction to the transition charge. The adjustment to the investment will be calculated as follows:~~

- ~~—— The market valuation; less~~
- ~~—— The undepreciated capital investments incurred after December 31, 1995; less~~
  - ~~• Reasonable costs associated with the sale or market valuation.~~

### **Property Taxes**

Property taxes associated with the Company's investment in the Millstone nuclear plants will be recovered in two pieces. Property taxes associated with the market value of the initial investment along with property taxes associated with new plant additions will be recovered by revenue generated by selling the nuclear plants' energy and capacity into the competitive market after termination of the NUG&T. Property taxes associated with the unrecovered net book value in excess of market value will be recovered through the transition charge.

Property taxes recovered from revenue generated in the competitive market will be calculated by applying the mill rate for the town of Waterford, Connecticut to the net plant balance associated with the market value of the Millstone plants plus unrecovered plant additions. Property taxes to be recovered through the transition charge would be calculated by taking the difference between the Millstone plant property tax bill in total

less that portion associated with the market value of the Millstone plants plus unrecovered plant additions. Such calculation will reflect appropriately implementation of legislative requirements for compensating municipalities for lost tax revenue enacted by the state of Connecticut concerning property tax for these units.

### **Unavoidable Costs**

Certain costs associated with the ownership of nuclear power generation are unavoidable. That is, certain categories of costs will continue to be incurred after March 1, 1998 whether a plant operates through its license life or not. These costs are also proposed to be recovered through the transition charge. These unavoidable costs include: property taxes, Nuclear Regulatory Commission ("NRC") fees, insurance, site and plant security, regulatory compliance, and interest on spent nuclear fuel.

Decommissioning cost amounts will be adjusted as decommissioning studies for Millstone 2 and 3 are updated no less frequently than every two years. For Millstone 1, WMECO has included in its transition charge, beginning August 1, 1998, a decommissioning level consistent with the retirement of that unit as of July 24, 1998. Decommissioning funds received will be placed in an irrevocable trust in accordance with relevant state or federal laws and regulations. Upon completion of decommissioning any remaining balances in the decommissioning trust accounts will be returned to customers.

### **Nuclear Cost Recovery Transition**

In order to address concerns that the NRC may have regarding the financial viability of nuclear plant owners for operation of the Millstone plants, as well as to help

mitigate transition costs, WMECO proposes a transition period during which the transition charge will collect performance-based rates related to Millstone plant operation. The performance based rates will be calculated as follows:

Revenue from the sale of Millstone 2 and 3's capacity and energy produced will be reduced by total reasonable operating costs including return of and on capital additions incurred after December 31, 1995 on a cost-of-service basis not otherwise recovered in the transition charge as described above.

To the extent that revenue is in excess of expense for a given year, 25 percent of that amount will be refunded to customers by means of a credit to the transition charge in the subsequent year.

To the extent that expenses are in excess of revenue as described above for a given year, 25 percent of that amount will be collected through a debit to the transition charge in the subsequent year.

WMECO proposes that the transition period commence upon termination of the NUG&T and end ~~on December 31, 2009~~ **upon divestiture of the units**. Calculation of revenue and expenses will be determined for each unit and for purposes of measuring nuclear performance based rates will be aggregated on a combined basis for Millstone 1, 2, and 3. Such calculation will not apply to Millstone 2 until it is deemed "in-service" from its current outage. That unit is deemed to be in-service if it is synchronized with and providing power to the grid.

The NRC has expressed significant concerns about the potential effects of restructuring on the safe operation and decommissioning of nuclear facilities. The Company must stress that its proposal for nuclear recovery, and the sharing of operational benefits, are subject to change resulting from NRC rule changes or other actions. ~~WMECO intends to review this proposal, and its proposal for post-shutdown~~

~~costs, described below, with the NRC in the near future and will report to the Department the results of that review process.~~

### **Post-Shutdown Costs**

If the Company should decide to shut down one or more of the Millstone units permanently, ~~as has occurred with the decision to shut down Millstone 1 on July 24, 1998,~~ the Revised Plan provides that the Company's share of reasonable post-shutdown costs not recovered through the decommissioning account will be recovered as an addition to the "actual decommissioning" reconciliation or capitalized and recovered as a regulatory asset. The transition charge has included the Company's estimate of the post-shutdown costs not covered by the decommissioning fund for the period between the retirement decision and the approval of the decommissioning plan by the NRC.

In its Revised Plan, WMECO proposes to recover its post shutdown costs for Millstone 1 as a regulatory asset and to amortize such costs over a 12-year period.

The Company proposes that it be allowed to collect revenue through the transition charge based upon this estimate, subject to reconciliation. In the event that the Company decides to retire a plant before its scheduled retirement date it will reflect such a change in the transition charge effective with the date of retirement. Recovery of unrecovered investment, end of life materials and supplies, nuclear final core, pre-decommissioning and post shutdown costs, and decommissioning costs included in the transition charge in either the fixed or variable component as been reflected for Millstone 1 and detailed in Exhibit 13E.

### **Fossil and Hydro Transition Costs**

WMECO owns all or part of fossil and hydro generating units at eleven stations. These units have a net book value of approximately \$60 million as of December 31, 1995. Because WMECO has elected to divest these plants, the transition costs to be recovered, if any, from them will be determined as a result of the divestiture process;~~;~~ ~~which WMECO anticipates will occur as soon as June 30, 1998~~ At the time of divestiture, any net proceeds received from divestiture will be used as a Residual Credit against the transition charge.

During the period between March 1, 1998 and the date of divestiture, WMECO will include in the variable portion of the transition charge its net costs of operation of all of its generating facilities, including the netting of the benefits from the NUG&T. In addition, for Northfield Mountain and related hydro facilities (Cabot and Turners Falls), which are being auctioned at a later date, WMECO has proposed to treat them as purchased power contracts until they are auctioned so that the value of these assets during that period are captured as a benefit (mitigation) for customers. The calculation of costs of WMECO's generation, and the Northfield Mountain mitigation credit, to be included in the transition charge is described in Exhibit 13E.

### **3. Regulatory Assets**

WMECO ~~has~~ ~~will have~~ approximately \$130~~84~~ million associated with ~~net~~ regulatory assets as of February 28, 1998 for which it seeks recovery in the transition charge. These regulatory assets include those regulatory assets created pursuant to the Department's orders established prior to December 31, 1995. In addition, WMECO requests approval of regulatory assets related to the Standard Offer supply, the



incremental rate reduction implemented on July 1, 1998, and the full recovery of the cost to serve in 1998, all of which are described in Exhibit 13E. For purposes of establishing the transition charge, WMECO has amortized these assets over a 12 year period beginning March 1, 1998 except as noted in Exhibit 13E. For those assets which require a return on investment, WMECO has applied a return on net balances based on the weighted average cost of capital as of December 31, 1995. The calculation of costs to be included in the transition charge is described in Exhibit 13E. In addition, as of July 24, 1998, WMECO established a regulatory asset for the unrecovered costs associated with Millstone 1. This regulatory asset includes unrecovered cost of plant, materials and supplies, and final nuclear core in addition to the post-shutdown costs discussed previously. The Company has reflected recovery (return of and on) of the Millstone 1 regulatory asset over a 12-year period beginning August 1, 1998. Details of this regulatory asset can be found on page 6A of Exhibit 13E.

### **Purchase Power Contracts**

WMECO has two contracts with independent power producers. In addition, WMECO has other purchased power contracts with the Yankee nuclear facilities and Hydro Quebec.

WMECO proposes to calculate the over-market portion of these contracts annually and include them in the transition charge. **If these contracts are mitigated (e.g., buy-out, buy-down, or auction) this** over-market amount will be trued up to reflect the results of ~~the auction~~ **mitigation** of the output from these contracts. The calculation of costs to be included in the transition charge is described in Exhibit 13E.

### **Effects of Securitization**

As discussed in the next section of the Revised Plan, WMECO contemplates securitization of a significant portion of its transition costs. When that occurs, the cost of servicing the rate reduction bonds will replace the recovery of and on investments that have been securitized.

## **V. MITIGATION OF TRANSITION COSTS**

The mitigation of transition costs has been an ongoing aspect of WMECO's historical obligation to provide reliable, least-cost service to its customers. WMECO has continued to make operating and expense decisions to minimize its total cost of service, including those costs that are to be considered transition costs as defined by the Act. WMECO will continue to mitigate all of its costs through normal, prudent management, as well as taking the following specific steps.

## **Divestiture**

### **1. Auction of Non-Nuclear Generating Revised Plants**

The Act provides for divestiture as a means to determine and mitigate transition costs. WMECO will divest its non-nuclear generating plants, and it expects to accomplish divestiture through a full-scale auction of these plants. As permitted under the Act, affiliates of WMECO are allowed to participate in the auction.

WMECO has retained the firm of J. P. Morgan & Company, Incorporated to assist it to prepare for and administer the proposed auction of its non-nuclear generating plants. That firm's qualifications, as well as an overview of the auction process and timetable are provided as Exhibit 15 in the Revised Plan.

## **Corporate or Functional Separation of Generation, Transmission and Distribution**

The Act requires an electric company which chooses to divest non-nuclear generation to "...transfer or separate ownership of generation, transmission and distribution facilities into independent affiliates of the electric company or functionally separate such facilities within 30 days of federal approval." WMECO believes that functional separation of its remaining generating (after divestiture), transmission, and distribution functions, with appropriate separation of accounting and financial information, is the most appropriate, most feasible, most cost-effective and most timely means to address the requirements of the Act for the Company.

As noted in the Revised Plan, WMECO will auction off its non-nuclear generating facilities on the open market, and, in the near term, it intends to auction its ownership of Millstone 2 and 3 by January 1, 2004. The Revised Plan envisions the initial securitization of such nuclear investment, (with additional securitization after auction) with the capacity and energy there from being sold at market rates. Receipts from such energy and capacity sales will offset the transition charge to retail customers, as described in Section IV. Thus, WMECO itself will not be conducting a retail merchant generation business post-restructuring although an NU affiliate may.

Furthermore, under the terms of the governing New England ISO agreement, WMECO's pool transmission facilities (PTF) are made available to the public at a regulated rate common to all similar utilities in New England. Non-PTF transmission is also made available on a non-discriminatory basis to customers on separate tariffs. Thus,

transmission is not presently a competitive business in New England. Of course, by definition, distribution is a non-competitive business.

In addition, unlike some other utilities operating in Massachusetts, all of WMECO's current distribution, transmission, and generating assets are owned by a single corporation. The logistics and cost of separating thousands of distribution and transmission assets into separate legal entities would be difficult, expensive and time-consuming, especially under the severe time constraints imposed by the Act.

Given these factors, and the fact that significant synergy's exist in the joint operation of transmission and distribution facilities, there is no clear economic rationale for requiring the three operating functions of WMECO into insulated, separate corporations in order to achieve the pro-competitive goals of the Act, and there are good, practical reasons why they should not be so separated. The Act gives WMECO the alternative of reorganizing into three distinct corporations or "functionally separating such facilities within 30 days of federal approval." Given the circumstances mentioned above, combined with the difficulties associated with capitalizing several new companies, (i.e., a transmission company and a distribution company), and then conveying a multitude of property rights and assets to such new companies, "functional separation" appears to be a practical and reasonable alternative consistent with the Act.

As part of the Revised Plan, WMECO proposes to:

Maintain strict cost-accounting such that the generation, transmission, and distribution functions all identify assets and liabilities and operating costs as if they were separate companies. Thus, rates can be readily set for the two rate-based activities (transmission and distribution) and costs for the three functions can be properly segregated.

Maintain separation of the transmission and distribution organizations from the NU system's merchant generation and marketing businesses, in line with the functional unbundling requirements imposed by the Federal Energy Regulatory Commission in its Rule 889 and its Orders on Standards of Conduct issued in December 1997 in Docket Nos. OA97-284-000, OA97-442-000 and OA97-630-000. While these Standards of Conduct pertain only to the merchant wholesale generation business as it relates to transmission, WMECO will undertake to maintain the same standards with respect to its affiliates' merchant retail generation business as well. This outcome will ensure compliance with the spirit and the letter of the Act, while achieving conformity with comparable FERC rules having the same intent.

WMECO will be prepared to segregate its transmission and distribution businesses from one another in a similar fashion should transmission become a competitive business.

## **B. Securitization**

### **Introduction**

Securitization of approved transition costs is essential to WMECO's ability to provide customer savings required under the Act and to maintain the Company's financial viability. As such, the Company requests that the Department expedite the time frame in which securitization is made available in order to meet the provisions of the Act so that WMECO rate reduction bonds can be issued **as soon as possible** consistent with the Department's ruling that securitization be addressed in a separate proceeding, WMECO anticipates filing a securitization application in September 1998. **For modeling purposes in Exhibit 13E the Company has assumed a securitization date of January 1, 1999**~~by September 1, 1998.~~

WMECO recognizes that securitization will not be made available unless the Company is in compliance with Section (1G)(d)(4) of the Act, which requires that WMECO prove to the satisfaction of the Department the following:

- (i) it has fully mitigated the related transition costs;
- (ii) savings to customers will result from securitization;
- (iii) all such savings derived from securitization shall inure to the benefit of customers;
- (iv) it has obtained written commitments that purchasers of divested operations will offer employment to impacted employees;
- (v) the electric company demonstrates that it has established, with the approval of the department, an order of preference for use of bond proceeds such that transition costs having the greatest impact on customer rates will be the first to be reduced by those proceeds.

WMECO intends to mitigate fully related transition costs, generate savings from securitization, provide all savings derived from securitization to customers, comply with

provisions regarding the impacts of divested operations on employees, and submit for approval an order of preference for use of bond proceeds.

The following subsections describe the use of securitization as a financing tool, the securitization process, the Company's proposed use of securitization and a suggested timetable that would accomplish securitization consistent with the Revised Plan.

## **2. Description of Securitization**

The securitization of stranded costs through the issuance of rate reduction bonds is an emerging and important element of the electric utility restructuring plans. WMECO believes that securitization is an available financing tool, which when properly applied, provides benefits both for customers and the electric companies. This financial tool can remove barriers to competitive markets, accelerate utility restructuring, fulfill past obligations to investors, and importantly, permit the Company to lower rates by reducing its costs. The securitization of transition costs has recently proved itself in this regard in California with the recent issuance of approximately \$6 billion in rate reduction bonds, issued through three separate utilities.

It is important to note that securitization is not the process whereby transition cost recovery is analyzed or debated. Rather, securitization is the end result, after thoughtful and careful review through the regulatory process. Once these costs are reviewed and approved in accordance with enabling legislation, securitization merely provides a method to finance or refinance these costs at lower levels than are currently reflected in customer rates. This financing is based on bonds sold to the public and backed by a revenue stream or charge dedicated to transition cost recovery. Since this revenue stream



has been approved by regulators, backed by statute and is irrevocable, the bonds receive credit ratings that can be much higher than the underlying utility, and therefore, can significantly reduce financing costs for the company. These lower costs are then used to recalculate new electric rates at lower levels.

WMECO believes the securitization process in Massachusetts can benefit significantly from the financial and legal trailblazing for electric industry restructuring accomplished in California and the fact that asset securitization for assets like credit card and home mortgage receivables is a commonplace financing tool for companies seeking short- or long-term funding.

Securitization has its origins in the packaging and resale of residential mortgages dating to the 1970s. It has expanded to include numerous asset classes, including the financing of credit card balances, lease receivables, and home equity loans. The size of this market for all asset classes is immense, having grown to over \$180 billion in outstanding securities. This market continues to grow, due in part to the introduction of the new transition cost asset class. In November and December 1997, the three California utilities (Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric) issued approximately \$6 billion of rate reduction bonds backed by stranded costs or transition property. These were the first stranded-cost securitizations in a market that is expecting the issuance of up to \$30 billion over the next two to three years, including the next round initiated through utilities serving the states of Pennsylvania, Illinois and Massachusetts.

### **3. The Securitization Process**

As previously stated, securitization is the end result of the refinancing of Department-approved transition costs. However, the preparation and necessary approvals required to securitize transition costs need to begin well before ultimate Department approval of a finance order. In general, the process can be categorized into three areas:

- a) State regulatory commission approval. WMECO will submit a securitization application to the Department seeking approval of the transaction and demonstrate the net customer savings that result from securitization. Specifically, this application will present for approval the non-bypassable charge to be recovered through customer rates that will serve as the repayment stream for the rate reduction bonds. The application will also address any required true-up or rate adjustment mechanism that may affect the transition charges over time, net savings to ratepayers, use of proceeds, timing of the transaction, financing costs including those costs associated with the use of proceeds, tax and credit rating agency considerations, accounting, credit enhancement, and servicing.
- b) Issuance. Once Department approval is granted, WMECO will be in a position to issue securities as approved. Preparation for this step must start early in the process. The key elements of this step include:

Determining the structure of the bonds. Typically, the utility sells the rights to the non-bypassable charge (and related statutory rights) to a special purpose vehicle (SPV), which purchases such rights with funds obtained by issuing the SPV's own securities. As an option, this structure can be supported by a third-party financing entity such

as the Massachusetts Industrial Finance Authority or the Massachusetts Health Educational Facilities Authority. WMECO supports this option since it mirrors the tested and proven California rate reduction bonds structure and could result in state tax-exempt bonds. This step also includes determining the maturity and amortization rate of the bonds, and whether a single bond or series of bonds will be issued and in what sequence.

Rating the bonds. The bonds will require the ratings of at least two credit rating agencies such as Fitch Investor Service, Standard and Poor's or Moody's Investor Service. This is essentially a due diligence process conducted by the agencies themselves, which focuses on the enabling statute, Department approvals, customer base characteristics, customer and sales forecasting procedures, historical and forecasted customer growth rates, company billing and collections, meter reading, cash management, computer systems, credit delinquencies, tariff design, credit enhancement and true-up mechanisms.

Rulings and approvals. WMECO may have to seek several technical rulings and approvals in order to issue the rate reduction bonds in the same manner as those issued in California. These may include IRS tax rulings, issuance approvals from the Securities and Exchange Commission and various legal opinions. In addition, WMECO will also have to secure a separate approval from the Department concerning its fully mitigated transition costs and will have to divest its non-nuclear generating facilities, in accordance with the Act.

Marketing. It is preferable that Rate Reduction Bonds be issued in one large, liquid transaction rather than in multiple issues over several months or years in order to minimize the all-in cost of the transaction and to provide optimal liquidity for investors. The large size of the offering would generate the greatest investor interest and momentum for the transaction, and maximizes the impact of an initial investor road-show and investor meetings occurring prior to the transaction's launch into the asset-backed securities ("ABS") market.

The investor road-show would include a discussion of the deregulation of the utility industry in Massachusetts, a summary of the legislation and financing order and discussion of any legal/regulatory/political challenges associated with each, a summary of the structure of the transaction, and an overview of the NU system and WMECO in particular. The road-show should occur approximately 1-2 weeks prior to the launching of the transaction and would take place in various cities in the United States including Boston, Hartford, New York, Chicago, and San Francisco.

Once the road-show is completed, underwriters would solicit indicated pricing level interests from investors and would determine their interest levels in terms of purchase size. Underwriters would thereafter launch the transaction with specific pricing level ranges in mind for each class and would develop the book of investors who will participate in the offering. At the completion of this process, underwriters would price the issue based on the indications obtained during the launching process. This phase of the transaction is expected to take place over a 2-5 day period.

While the transaction would likely be issued in one offering, the offering itself would likely be split into multiple classes having various average lives, in order to attract the greatest breadth of investor demand. Each of the classes would be substantial in size, to offer liquidity to investors. Different types of investors would be expected to be attracted to the different classes. For example, for classes with average lives of between 0-3 years, corporate cash

managers, money market funds, and banks would be expected to be primary participants. For classes with average lives of between 7-10 years, the majority of interest would be derived from life insurance companies, pension funds and investment advisors. The offering would be expected to attract a cross-section of ABS and utility investors.

It is also believed that this approach may also save repetitive fixed transaction expenses such as rating agency fees, trustee fees, accounting costs, and printing costs as well as minimize legal costs associated with the offering.

**Example of a Comparable, Recent Market Transaction:**

With the establishment of the California benchmark transactions, future utility asset-backed securities transactions will be more easily executed. PG&E issued \$2.9 billion in ABS, utilizing eight classes with average lives from 0.5 years to 9.5 years. All bonds were rated Aaa/AAA/AAA and all bonds were fixed rate. The issue was ten times oversubscribed across all classes. The investor base was diverse with more than 200 different investors participating -- Investor Base: Traditional ABS (70%), Corporate bond/Utility crossover (27.5%), Municipal (2.5%). Approximately 5% of the issue was placed in Europe. The all-in cost of the transaction was 62 basis points over the 5.2-year Treasury (plus 12 basis points in yield for underwriting fees).

**4. Use of Proceeds**

The proceeds planning process actually begins early in order to establish capital structure targets, to determine which outstanding series of debt and preferred stock are

the best reduction candidates, and to design a cost-effective execution strategy. Once this process is determined and the bonds are sold, WMECO will enter the market to use the proceeds to repurchase the debt and preferred stock.

In accordance with the Act, WMECO proposes to securitize its fully mitigated transition costs, currently estimated for planning purposes to be in the order of \$500 million. The Company will provide further detail in its securitization compliance with the legislative requirement that the electric company demonstrate that the bond proceeds will be applied first to reduce transition costs having the greatest impact on customer rates. All savings derived from securitization and the resulting repurchase of securities will inure to the benefit of customers.

For informational purposes, WMECO's preliminary analysis indicates that securitization proceeds will be used to:

- Retire approximately \$300 million of WMECO's \$400 million long-term debt obligations;

- Retire ~~the majority~~ **the majority** of WMECO's \$35 million preferred stock obligations;

- Reduce WMECO's common equity capitalization by approximately ~~\$200~~ **140** million;

- **Reduce WMECO's short term debt balance by approximately \$10 million;**
- Pay call premiums of approximately \$5 million to retire debt and equity; and
- Pay issuance and transaction expenses of \$10 million

~~As previously described, WMECO will file, by January 31, 1998, its~~ **Exhibit 13E contains the** proposed transition charges for the period following divestiture of non-nuclear generation including the initial securitization of approximately \$500 million. This amount reflects the exclusion of 10 percent of nuclear investment proposed by

WMECO to facilitate early securitization. Exhibit 13E includes securitization of the costs deferred associated with the additional July 1, 1998 rate reduction and the Standard Offer Service deferrals.

### **Proposed Timetable**

WMECO requests expedited treatment for approval of securitization in order to continue to meet the March 1, 1998 and July 1, 1998 rate reductions required under the Act without undue financial harm to the Company's financial position. As described above, the Company intends to comply with each provision of the Act governing the ability to use securitization.

The Company recognizes it may be the only Massachusetts electric company to request expedited treatment. However, WMECO will suffer financial harm if securitization of qualified assets does not occur on a timetable substantially consistent with the divestiture of WMECO's non-nuclear generating assets (excluding Northfield) and the coincident cessation of WMECO's participation in the NUG&T. Should the benefits of securitization not be available for a significant period of time following the date of **initial divestiture of the fossil/hydro generating facilities (exclusive of Northfield)**, it is highly doubtful that WMECO would be able to remain financially viable. As previously described, the securitization of the Company's mitigated transition costs will reduce the Company's costs, and will help support the rate reductions required by the Act.

Following is an ~~following as an~~ example of a timetable that supports the Company's request for expedited treatment for the issuance of rate reduction bonds.

<u>Time Frame</u>	<u>Event</u>
January 1, 1998	File restructuring Plan with Department
February	Initiate process to create financing entity
Day 1 March	File securitization application with Department
Day 30 April	File tax ruling request with Internal Revenue Service (if deemed necessary)
Day 60 May	File financing documents with Securities and Exchange Commission (SEC)
Day 60	Initiate process to establish Special Purpose Trusts (i.e., the Financing Entities)
Day 90 June	Initiate credit rating agency servicer due diligence process
Day 120 July	Receive Department finance order approval
	Receive preliminary rate reduction bond ratings
August Day 150	Receive favorable IRS tax ruling
	Receive favorable SEC ruling
	Market rate reduction bonds
September Day 180	Close on sale of rate reduction bonds
	Use proceeds of sale to retire debt, preferred stock and equity

### **Purchased Power Contracts**

WMECO and the NU system have an impressive track record of renegotiating purchased power contracts. These contracts were entered into as part of WMECO's obligation to serve customers and were supported by federal and state energy policy.

Of WMECO's purchased power contracts, two are associated with independent power producers:

A contract with MASSPOWER , which runs through 2008, and

A contract with Springfield Resource Recovery Project, which runs through 2013.

WMECO ~~has previously~~ **has previously** attempted to renegotiate these contracts. In addition, WMECO is attempting to further mitigate these contracts and will report on the results to the Department as required by the Act.



## **MASSPOWER**

Subsequent to the Massachusetts D.P.U.'s decision in D.P.U. 86-218-B, denying WMECO a temporary waiver from issuing a Request for Proposals for additional capacity, WMECO announced in October 1988 that it was seeking 54 MW of additional capacity from cogeneration and small power production facilities pursuant to the Department's orders of August 25, 1986, January 22, 1988, July 26, 1988 and September 28, 1988. This solicitation was conducted according to 220 CMR 8.00, *et seq.*

As a result of WMECO's subsequent first competitive bidding solicitation, MASSPOWER (54 MW) was selected and awarded a long-term contract which was executed June 15, 1991. MASSPOWER was declared in-service on July 31, 1993.

WMECO has continually investigated ways to hold down or reduce electric rates paid by its customers, as evidenced by WMECO's letter to MASSPOWER, dated March 29, 1996, inviting MASSPOWER to submit proposals that would contribute to the reduction of costs borne by WMECO customers. WMECO stated that proposals could include WMECO's buy-out of the contract or buy-down of the contract rates or sales levels. WMECO was also willing to consider contract term extensions or truncations, modifications to existing payment streams, changes to security provisions, changes to scheduled maintenance provisions, and any other proposals that would meet the goal of reducing customer costs, and pointed out the possibility that differences between the parties' discount rates may make some timing modifications mutually beneficial.

By letter dated July 12, 1996, MASSPOWER informed WMECO that it did not intend to submit such a proposal. By letter dated May 15, 1998 WMECO asked to meet

with MASSPOWER to discuss ways to reduce the transition charge attributable to this contract. WMECO met with MASSPOWER on July 9, 1998 and will submit a mitigation proposal to them.

### **Springfield**

On August 1, 1986, WMECO filed with the Department an Electricity Purchase Agreement for purchase of electricity from the Springfield Resource Recovery Project. As a result of the Department taking no action within the 60 days following that filing, the contract was automatically approved.

As with MASSPOWER above, by letter, dated March 29, 1996, WMECO invited Fluor Irvine, owner of the refuse facility, to submit proposals that would contribute to the reduction of costs borne by WMECO customers. During a meeting with WMECO in December 1996, Fluor indicated its interest in pursuing a mutually beneficial deal at a future date when conditions become favorable. Since that time, Energy Answers Corporation ("EAC"), has taken steps to acquire this facility. On January 14, 1998 and on two subsequent dates WMECO met with EAC to discuss ways to mitigate this contract. Negotiations are continuing with EAC.

### **Mitigation Associated with Nuclear Plant Operation**

As described in Section IV.B.1 of the Revised Plan, nuclear plants present unique concerns and opportunities in the determination and mitigation of transition costs. There is also a significant issue in connection with the financial stability necessary that will satisfy the NRC's criteria for adequate financial resources to operate and decommission nuclear plants. WMECO's proposal addresses both of these issues. Because these units

are expected to generate economic benefits into the future, WMECO's proposed sharing mechanism will help mitigate WMECO's transition costs.

Based upon the Company's expected operation of these nuclear units in the future, there is a projected benefit, the share of which would accrue to mitigate transition costs, over the next several years. The mitigation benefit (or cost) is detailed on page 3 of Exhibit 13E.

### **The NUG&T Agreement**

The NUG&T was entered into on June 1, 1970 by the Northeast Utilities operating company subsidiaries in Connecticut and Massachusetts<sup>1</sup> (the "Initial System Companies") as a means to provide single system planning and operation of their respective bulk power supply systems in order to assure maximum practicable economy consistent with proper standards of reliability. (The text of the NUG&T is attached as Exhibit 16.) The NUG&T is a filed rate schedule with the Federal Energy Regulatory Commission ("FERC"). It was first filed in 1970 and was later amended on February 3, 1982.

Under the NUG&T, the total production plant capacity costs, backbone transmission capacity costs, and energy costs of the Initial System Companies are pooled and then allocated among the companies based on each company's proportionate use of the system's facilities, as measured by demand and energy usage.

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<sup>1</sup> The original signatories of the NUG&T are The Connecticut Light and Power Company ("CL&P"), The Hartford Electric Light Company ("HELCO"), Western Massachusetts Electric Company, Holyoke Power and Electric Company and Holyoke Water Power Company ("HWP"). In 1983, HELCo merged with CL&P. Public Service Company of New Hampshire is not party to the NU G&T Agreement.

The NUG&T contains cost of service formulae for calculating the production capacity, transmission and energy costs of each company that are subject to the Agreement. It then uses a two-part allocation formula to equalize production plant, backbone transmission and energy costs among the companies. The first part of the allocation formula allocates production plant and backbone transmission capacity costs on the basis of the respective peak demands of the companies. The current allocation formula for production plant and transmission costs uses the relation among the "Adjusted Annual Peaks" of the companies, as defined in the NEPOOL Agreement, as the basis for the allocation of these costs.

Under the NEPOOL Agreement, Adjusted Annual Peaks are defined as the 16-month ratcheted non-coincident peak loads of the companies. Accordingly, if one company represents 20 percent of the Initial System Companies' peak demand as calculated pursuant to the NEPOOL Agreement definition of Adjusted Annual Peak, it will be responsible for 20 percent of the Initial System's aggregate production capacity and transmission costs. If that company owned production and transmission facilities which comprise 25 percent of the total for the Initial System, it would be entitled to an equalization payment from the other companies, and vice versa.

The second part of the allocation formula allocates energy-related costs on the basis of the respective kilowatt-hour loads of the Initial System Companies in each billing month. Thus, a company that incurs a greater percentage of energy costs than its share of the total kilowatt-hours of energy use of all the Initial System Companies during the month will receive a payment from the other companies, and vice versa. Costs

redistributed by the energy allocator include fuel expense, energy expense associated with purchases from others and NEPOOL and mini-pool interchange expense.

For accounting purposes, the Initial System Companies' books reflect only the net difference between the average system cost and the bulk power costs for each company's peaks prior to the NUG&T adjustment. In an instance where a company's generating capacity cost per kilowatt is less than the system's average capacity cost, a charge is billed to that company to bring its costs up to the average level, and a credit is given to the company or companies whose costs are above the average cost per kilowatt of capacity. The sum of the charges and credits is zero.

As illustrated by the description above, the NUG&T is a complex capacity cost, transmission cost and energy cost pooling mechanism that is subject to the jurisdiction of FERC. Because the NUG&T serves to share and allocate costs across CL&P, WMECO and HWP, particularly in connection with capacity and energy usage, it is not consistent with the ultimate restructuring of electric utilities as set forth by the Act.

Because of its provisions, the "unwinding" of the NUG&T will cause the sharing of cost responsibilities among the companies to cease and such cessation could result in independent cost responsibilities for each company to increase or decrease. In addition, because of the "Sharing Agreement" between the Initial System Companies and Public Service of New Hampshire ("PSNH"), NU's New Hampshire operating company, any change to the NUG&T must account for any impacts on PSNH's costs under the Sharing Agreement. Therefore, any amendment or termination of the NUG&T must take into account the interests of electric consumers in all of the states in which NU provides

service.

Despite these complexities, NU, WMECO and its affiliates are committed to modifying the NUG&T in the shortest feasible time period. Specifically, WMECO anticipates that, when its non-nuclear plants are divested (exclusive of Northfield) it will withdraw from the NUG&T with regard to generation costs. WMECO has assumed a date of January 1, 1999 in its modeling. As described in its Revised Plan, WMECO is expeditiously proceeding to resolve and implement all related tasks.

While the complexities explained above will delay resolution of the NUG&T issue beyond the March 1, 1998 date, WMECO does not believe that the NUG&T will delay the implementation of retail choice on March 1. Retail choice and the retail rate reduction can go forward while WMECO is simultaneously pursuing the changes which will eliminate the NUG&T as an impediment to the newly restructured electric industry.

## **VI. UNIVERSAL SERVICE/DIRECT RETAIL ACCESS**

### **A. Universal Service**

\_\_\_\_\_ Under the ~~current~~ **historic** system of regulation, an electric company's obligation to serve means that it had the responsibility to provide both energy and delivery service to all customers in its service territories. In the new regulatory system, the competitive market will be responsible for providing only the energy portion of customers' needs. Distribution companies, however, will be responsible for procuring Standard Offer for seven years and will be responsible for procuring Default Service indefinitely. In addition, distribution companies will continue to provide all customers the delivery

services to allow customers access to market-supplied energy. Accordingly, the new regulatory paradigm generally does not eliminate any of the current universal service mandates but does require some revisions and new provisions to ensure that direct access will be implemented with as little confusion as possible.

Further, the distribution company must recognize its new relationships with its customers and their suppliers and the new mandates with respect to low-income residential customers. With the exception of Standard Offer and Default Service, which are discussed in Section III of the Revised Plan, each of the universal service components and how each accommodates direct access is discussed below.

### **1. Terms and Conditions**

Under the new regulatory system, ~~there will be~~ **WMECO has** two sets of Terms and Conditions in place. ~~of the one set in place now.~~ One ~~will reflect~~s the new relationship between a distribution company and its customers ("Terms and Conditions for Distribution Service"); the other ~~will reflect~~s the new relationship between a distribution company and competitive suppliers ("Terms and Conditions for Competitive Suppliers").

Pursuant to the Terms and Conditions for Distribution Service (see Exhibit 12), the Company will provide customers with service while ensuring that all customers continue to enjoy non-discriminatory access to electricity. The Terms and Conditions have been further designed to allow customers to select a competitive supplier of their own choosing or continue to receive service through the Company's Standard Offer or Default Service. The ~~proposed~~ Terms and Conditions ~~to~~ **to** govern the relationship

between the distribution company and its customers are the terms developed jointly by all Massachusetts distribution companies (~~based on the Department's June 13, 1997 Model Terms and Conditions in D.P.U. 97-65~~), and were ~~filed with~~ approved by the Department on ~~December 31, 1997~~ ~~July 11, 1997~~. On February 27, 1998, the Department approved the Company's compliance filing in this docket.

In its Terms and Conditions, WMECO has provided for the implementation of both Standard Offer and Default Service. The Terms and Conditions include language that would prohibit customers from bypassing distribution service, thus ensuring that all customers will pay their fair share of transition costs and other applicable charges. Also included are the Department's current billing and termination regulations that ensure that a customer's rights are protected. Consistent with the Act, the Terms and Conditions continue the Company's provision of metering, billing and information services to customers. In addition, as further provided in the Act, a customer will have the option later in calendar year 1998 to receive a separate bill for generation service from its competitive supplier.

Additional language is included in the Terms and Conditions for Distribution Service to facilitate the accurate identification of customers and other critical information that a customer would be obligated to provide when distribution service is initiated. ~~The Company will include a schedule of fees and charges, and an updated line extension policy, as they are developed prior to March 1, 1998.~~



## **2. Low Income Discount (LID) and Low Income Programs**

### **Discount**

Pursuant to the Act, the Company ~~has will~~ provided discounted rates for low income residential customers comparable to WMECO's own low-income discount rate in effect prior to March 1, 1998. The Company ~~will provides~~ these discounted rates through the Low Income Discount ("LID") rider on residential rates for low income customers comparable to the low-income discount in effect prior to March 1, 1998. The LID ~~will be~~ is calculated as described in Section II.

Customers are eligible for the LID if they are customers of record who are verified as participating in a means tested public benefit program for which eligibility does not exceed 175% of the federal poverty level. This includes Supplemental Security Income (SSI), Temporary Aid to Needy Families (TANF), Transitional Aid to Families with Dependent Children (TAFDC), Medicaid, Refugee Resettlement, Food Stamps, Low Income Home Energy Assistance Program, Veterans' Service Benefits under Massachusetts General Laws Chapter 115, income eligible tenants of public housing or state or federally subsidized housing, or other criteria for eligibility as determined by the Department.

### **b. Outreach**

Outreach to low-income customers ~~will be done~~ is being accomplished through the agencies providing means tested public benefits. Customers participating in the Low Income Home Energy Assistance Program ~~will be~~ are presumptively enrolled on the

LID rider and ~~will be~~ **are** notified within 60 days of enrollment of their rights and obligations under the program, including the right to withdraw from the program without penalty. All residential customers will be notified three times a year of the availability of and method of qualifying for the LID rider. In addition, notice of the availability of the LID rider will also be given using more targeted mailings or publications.

### **NUSTART**

In order to encourage and assist LID rider customers to use electricity safely and wisely and to maintain service year round by paying their bills, the Company ~~will~~ provides customer educational materials by direct mail at least twice a year, ~~will~~ screens these customers' accounts and ~~will~~ offers cost-effective low income DSM appropriate to the customers' situation in accordance with the low income DSM program discussed in this Revised Plan. Further, the Company will, by the fourth quarter of 1998, initiate a payment incentive pilot program, NUSTART, for at least 100 seriously delinquent LID rider participants who are enrolled in Standard Offer. This program will provide a positive incentive for those customers to pay their full discounted bill. Based on the results of the pilot, this program could be expanded to include at least 600 seriously delinquent hardship customers in 1999. By the end of 1999, WMECO will review the program and decide whether to continue or to close the program to new entrants.

### **Guarantee of Payment**

As required by the Act, the Company shall guarantee payment to the generation supplier for all power sold to low-income customers at the LID rates up to the prices that

the Company charges to customers for Standard Offer. Customers under this rate must be billed through the Company for all electricity suppliers. The cost of any discounts provided to low-income customers will be included as appropriate in the rates charged to WMECO's other customers.

### **3. Consumer Education Task Force**

Effective consumer education will be a prerequisite for consumers who exercise choice. WMECO has participated in the Consumer Education Advisory Task Force which has been developed under the aegis of the Department and the Division of Energy Resources to inform consumers of their options as the date of retail choice approaches and to facilitate the implementation of choice. Subgroups have been established to provide input on the development of the Department's Consumer Hotline and uniform disclosure information, to identify the phases of restructuring and to assist in the development of a consumer primer.

In addition to the Department sponsored activities, WMECO will develop specific programs and materials for WMECO customers to inform them of the responsibilities of distribution companies and suppliers and to provide them with tools to help them exercise their choice of supplier.

#### **B. Direct Retail Access**

A requirement for retail access is the ability of suppliers to operate and conduct retail transactions efficiently. WMECO has actively participated in a number of efforts to ensure a smooth transition to retail access. Among these efforts are:

### **Terms and Conditions for Competitive Suppliers.**

Other sections of WMECO's Revised Plan specify how direct access works on the macro level. The Terms and Conditions for Competitive Suppliers, however, provides important details of how the interface between the distribution company and the competitive supplier will operate. Like the Terms and Conditions for Distribution Service, the Terms and Conditions for Competitive Suppliers was developed jointly, based on the Department's Model, and ~~submitted to~~ **approved by** the Department in D.P.U. 97-65. These Terms and Conditions set forth the essential obligations and prerequisites of the distribution company and competitive suppliers in the provisions of electric service to retail customers. The Massachusetts distribution companies developed these Terms and Conditions to promote standardization of practices where standardization makes sense, while permitting distribution companies to use different terms to accommodate company-specific requirements and circumstances. Because the transition to competition will require distribution companies to incur additional costs, it is also appropriate that all participants in the competitive marketplace bear an appropriate responsibility for these costs. ~~The Terms and Conditions should include these costs.~~ To the extent that competitive suppliers do not pay these costs, then WMECO proposes that they be collected through either the distribution charge or the transition charge. **The Company understands that this issue will be addressed by the Department at a later date.**

### **Electronic Information Transfer**

~~An "Electronic Transfer of Customer Information Working Group"~~ **The**

"Electronic Business Transaction Working Group" (Working Group) was established as part of the Terms and Conditions proceeding to develop a process for the transfer of customer information between distribution companies and suppliers, while recognizing security and customer confidentiality requirements. On October 9, 1997, the ~~Electronic Transfer of Customer Information~~ Working Group submitted its initial report on Electronic Business Transactions (EBT) to the Department. An updated version of the report was submitted in April 1998. The report covers important elements of any direct choice system including:

a) Supplier notification to distribution companies of:

Customer enrollment with the supplier as of the next scheduled reading date.

- i. Customer's billing choice (i.e., customer wants one combined bill from the distribution company, or customer wants an individual bill from supplier for the supplier's services and from the distribution company for distribution services.)
- ii. Billing components if the distribution company is to be performing all the billing.
- iii. A customer's energy service being discontinued by the supplier and when such termination is effective.
- iv. Notification of any changes to the enrollment information such as a billing option change.

b) Distribution company notification to a supplier:

That a request for energy service from a supplier has been processed successfully.

That one of its customers has moved within the distribution company's service territory.

- i. That its customer no longer takes generation from it the supplier, either because the distribution company received an enrollment for the customer from a new supplier or because the customer has been "final-

billed" and no longer takes service from the distribution company.

- ii. Of monthly electrical usage of its customer.
- iii. Of the customer's charges related to the supplier's services if the distribution company is providing all billing services.
- iv. Of amounts being credited to the supplier's accounts as the result of customer payments.
- v. Of loads being attributed to the supplier for the purposes of ISO reporting. ~~Of any changes to the distribution company's billing system.~~
- vi. Of **transaction errors**. ~~failure of any electronic transactions.~~

### **Electronic Data Interchange Testing**

WMECO participated in the Electronic Data Interchange ("EDI") testing group that was formed from the ~~Electronic Business Transactions ("EBT")~~ Working Group in order to develop guidelines for suppliers and distribution companies to follow when it is time to test the EDI transactions. Each supplier must test a standard group of EDI transactions with each distribution company using the same standardized test Revised Plan.

### **Electronic Transactions**

The EDI Transactions Control group was formed to coordinate the mapping of the Massachusetts data formats to the EDI standard formats and to report on the national standards for utility electronic transactions.

### **Supplier Information**

A requirement for retail access is the ability of suppliers to operate and conduct retail transactions efficiently. As with other changes, WMECO has participated to develop uniform supplier education and training workshops. Additionally, the Company

is evaluating additional education and training methods that can be implemented in addition to the state-wide efforts.

A ~~s~~Supplier ~~t~~Training ~~g~~Group was established as a subset of the ~~EBT~~-Working Group to develop state-wide training programs for suppliers. These training sessions ~~will be~~ ~~have been~~ administered by the utilities within the state, including WMECO. Some of the items that ~~will be~~ ~~are~~ included on the agenda for the workshop will include: Regulatory Updates, ~~Choice Implementation Essentials~~, a review of Department-approved Terms and Conditions, ~~and~~ an overview of the EBT standards ~~and technical sessions covering billing, EDI, telemetering and load estimation~~. ~~It is also expected that this training will offer an opportunity to provide technical sessions on some of the more sophisticated issues such as load estimation, billing system requirements, telemetering alternatives, and other topics.~~

In addition to the training, the supplier group has developed a supplier guide which ~~will be~~ ~~has been~~ distributed to suppliers attending the training sessions. ~~made available to all suppliers. It is expected that t~~ The supplier guide ~~will also~~ provides essential information to suppliers including copies of the Terms and Conditions for both the Competitive Suppliers and Distribution Customers, a copy of the EBT standards, supplier registration information as determined by the Department, telemetering options, billing requirements and options, information exchange information, and load estimation information.

### **Metering, Billing, and Information Services Report**

Pursuant to the direction of the Department, WMECO and other parties initiated an effort during the summer and fall of 1997 to develop a comprehensive model to address the requirements of stakeholders in these areas. The main objectives of the effort were to:

- Develop a model that addresses the customer's need for additional metering, billing and information services (MBIS) within the present regulatory framework;
- Identify all issues most appropriately addressed through technical sessions and/or additional, working groups; and
- Identify steps which can be taken prior to January 1, 1998 to facilitate the introduction of competition in generation.

The working group reached a consensus that there were no requirements to unbundle MBIS services as a prerequisite to moving to a retail choice. The result of the intensive effort was a report submitted to the Department on October 31, 1997 by Massachusetts utilities (this report is attached as Exhibit 17).

## **VII. ENERGY CONSERVATION AND RENEWABLE ENERGY**

### **A. Energy Conservation**

#### **1. Energy Conservation Revised Plan**

The Company's Energy Efficiency Plan, which was approved by the Department as part of a joint settlement between the Company, the Attorney General, the Division of Energy Resources and the Conservation Law Foundation, is described in Exhibit 18. This Plan includes the following:

Detailed descriptions of ~~proposed~~ demand-side management programs designed to reduce market barriers to investments in energy efficiency for residential, commercial, and industrial customers, including regional market



transformation initiatives.

A proposal to deliver energy efficiency services to low-income customers through the low income weatherization and fuel assistance program network.

Analysis of program cost-effectiveness.

~~Proposed~~ ~~p~~ **P**rogram budgets for 1998 and 1999.

A performance incentive proposal.

## **2. Energy Conservation Funding and Cost-Recovery**

The Act establishes funding levels through a mandatory charge at the following amounts:

1998 3.30 mills/kWh

1999 3.10 mills/kWh

2000 2.85 mills/kWh

2001 2.70 mills/kWh

2002 2.50 mills/kWh

A minimum funding level during the same period was also established at .25 mills/kWh for low-income residential demand-side management and education programs.

The 1998 and 1999 ~~proposed~~ program budgets and performance incentives are consistent with these funding levels. The Energy Efficiency Plan does not present budgeted expenditures for the period 2000-2002. The Company, however, will file proposed budgets with the Department and/or DOER that are consistent with the required funding levels.

The Company ~~proposes to~~ **will** apply any Conservation Charge balance of over-

or under- recoveries as of March 1, 1998, in addition to recoveries March 1 - December 31, 1998 through the mandatory charge, against 1998 budgeted program expenditures and the performance incentive on 1997 program expenditures authorized in D.P.U. 96-8-CC. The Company ~~further proposes to~~ **also will** perform an annual reconciliation of actual recoveries through the mandatory charges with actual program costs, including program expenditures and performance incentive, on a calendar-year basis. This cost-recovery process will thus fully track revenues and costs and make subsequent adjustments to annual budgeted expenditures in order to match program costs to accrued recoveries.

**B. Renewable Energy**

Pursuant to the Act, WMECO ~~is to~~ **will** collect a mandatory per kilowatt-hour charge from all customers to support the development and promotion of renewable energy projects.

These charges vary by calendar year and are as follows:

1998 -- .75 mills/kWh

1999 -- 1.00 mills/kWh

2000 -- 1.25 mills/kWh

2001 -- 1.00 mills/kWh

2002 -- .75 mills/kWh

2003 and subsequent years -- .50 mills/kWh

The revenues collected by such charges on WMECO's customers will be remitted to the Massachusetts Technology Park Corporation in accordance with the Act.

## **IMPACT ON EMPLOYEES AND COMMUNITIES**

### **A. Introduction**

WMECO has been working diligently to facilitate a smooth transition to a restructured electric industry. In this process, WMECO has sought to ensure that its employees and the many cities and towns served by WMECO all achieve a full understanding of the changes in the market place. As discussed below, WMECO believes that, as a result of these efforts and through continued outreach programs to employees and the communities served by WMECO, an efficient transition will be achieved.

### **B. Employee Programs**

#### **1. Educational Efforts**

Discussion of the restructuring of the electric utility industry has been incorporated as a part of WMECO's communications program since 1995. These communications have been designed to create, in part, an educated and knowledgeable workforce that will be crucial in carrying out further public education campaigns. In

addition, these discussions prepare the workforce for the significant changes that are forthcoming in the electric industry as it relates to their own jobs.

Specific employee communication efforts have included: (a) regular discussions between senior management and employees at all levels of the organization; (b) a series of briefings on restructuring issues for those employees that have interactions with customers and community leaders; (c) articles and updates in monthly and daily employee communications; (d) ongoing departmental meetings; (e) individually addressed letters from senior management on relevant issues; (f) grassroots workshops focusing on the changing electric utility industry, and (g) articles and meetings to provide training in Code of Conduct requirements.

As restructuring commences, WMECO will continue educational programs for employees. These efforts will include: (a) development of written materials and a series of presentations to employees; (b) development of detailed training programs for customer service, district and customer support representatives as well as a speakers' bureau; and (c) the use of group meetings, employee communications, electronic mail and the NU internet web site to provide further details on restructuring issues. In addition, Call Center personnel in both Massachusetts and Connecticut will be trained to respond to customers' questions about restructuring. These employees will also become familiar with the Company's billing and revenue system for third-party billing. WMECO views the successful implementation of these education programs as being critical to the overall restructuring process.

## **2. Other Employee Impacts**

In anticipation of the restructuring of the electric industry and as part of an exhaustive effort to reduce costs, WMECO has undergone a significant streamlining of operations and a consolidation of certain functional areas. In particular, the number of employees has been reduced by approximately 35 percent since 1992 through job reductions and attrition. Moreover, tight control of pay and benefit increases has been exercised for managerial and administrative employees. WMECO has also implemented a consolidation of various functions to improve the efficiency of operations. In some cases, this has involved a shifting of work locations for personnel among WMECO's offices.

As the divestiture process progresses, the impact on jobs will receive close attention. ~~It is the Company's expectation that power generation personnel covered by relevant collective bargaining agreements will be hired by any new plant owners~~ The buyer(s) of the Company's generation assets will be obligated to adhere to the terms of the IBEW Local 455 contract and recognize the IBEW as the union's collective bargaining agent . The buyer(s) also will be required to offer employment to nonunion station personnel for at least 12 months following the closing at levels of wages and overall compensation at least equal to those prior to the sale. In any event, employees displaced through the divestiture process will be eligible for severance benefits. The costs of any such severance, out placement, retraining or other related employee transition costs associated with industry restructuring will be recovered through WMECO's transition charge.

Apart from power-generation functions, WMECO expects that it or an affiliate

will continue to serve transmission and distribution functions and provide safe and reliable service on behalf of its customers. Accordingly, no significant additional reductions in the level of employees in these areas are anticipated at this time.

### **C. Community Issues**

#### **1. Customer Education**

WMECO has had an active program to educate customers about the electric industry restructuring process. The strategy for this outreach has been to: (a) start a process and to build awareness about the relevant issues; and (b) correct any confusion that was present. Specific efforts have included restructuring workshops for customers; forums for industrial, commercial and government customers; and, restructuring presentations to individual customers. In addition, meetings with municipal and community leaders have been conducted.

Educational programs for customers will continue. A speakers' bureau and a question and answer training session are being developed for meetings with media, community, industry, civic, senior citizen and low-income groups. Training ~~will also~~ **continues** ~~to be~~ provided to suppliers, and a supplier registration unit ~~will be~~ **has been** established to enable a smooth transition to customer choice.

Materials ~~will be~~ **have been** developed and distributed as appropriate at formal presentations and trade shows, as well as to city and town halls, libraries and senior centers. Other mechanisms such as videos, bill inserts, radio and newspaper advertisements, information booths, and an internet web site ~~will also be~~ **have also been** implemented as part of the continuing communications outreach. ~~will be~~ WMECO will

continue active participation in other community programs and economic development activities. WMECO believes that all of these approaches will ensure that all customer groups have available the necessary information to ensure an efficient movement to customer choice.

Moreover, WMECO expects that several communities and organizations, such as Chambers of Commerce, may develop plans to aggregate loads to buy electricity in bulk. These aggregated groups may present important opportunities for customers, particularly residential and small business customers, to save on their electricity costs. WMECO has, and will, cooperate fully with groups in their aggregation efforts and will assist as appropriate in informing customers of such aggregation options.

## **2. Property Tax Issues**

WMECO pays personal property and real estate taxes to each community in the Company's service territory. These taxes are based on the fair market value of the property owned by WMECO. With the exception of taxes paid to communities hosting power production facilities (see Exhibit 19), changes brought about by restructuring are not anticipated to significantly change the amount of taxes paid to local communities.

WMECO believes that the new owners of the power production facilities will assume all personal property and real estate taxes levied by each host community except as provided in the Act.<sup>2</sup>

At this time, because WMECO's non-nuclear generating plants have not yet been sold or auctioned, it is not known what market value and related assessments the host communities might place on these plants. However, depending on the proceeds of

WMECO's divestiture process there may be no loss of property tax revenue. WMECO anticipates that discussions with affected communities regarding in lieu of property tax agreements will be held over the ensuing months.

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<sup>2</sup> To the extent that distribution companies are to assume tax liability for payments in lieu of taxes associated with their former generating assets, such expenses would be collected in the companies' transition charge.